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Ideas on Liberty

JULY 1980

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Clarence B. Carson

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Clarence B. Carson

WHITHER INDEPENDENCE— 1980 A.D.?

It might be more appropriate to hold a memorial service for American independence than to celebrate it in the Year of Our Lord 1980 and of our independence 204. There is certainly reason for questioning the extent of our independence today. In any case, it is surely in order to assess where we seem to be headed on the matter of independence and to call to mind the ideals which called this country into being.

The "Fourth of July," Independence Day, is, of course, a day set aside to mark the anniversary of our independence from England. It was on that day in 1776 that those of the members of the Second Continental Congress who could and would signed the Declaration of Independence. From the earliest years, however it came to mean more than that. It caught up the aspirations of America. The American dream of an empire for liberty took on body in the Fourth of July celebrations, which, before too many years, became national in scope.

The ideal of independence had at least three dimensions from the outset. They were not separate dimensions but were intertwined with one another. One dimension was *national independence.* A second was the *independence of the states.* The third was *personal independence.* All three dimensions were believed to be the necessary condition for individual liberty.

Dr. Carson has written and taught extensively, specializing in American intellectual history. He has further explored the subject of this essay in several books, including *The American Tradition, The Flight from Reality, The Rebirth of Liberty,* and *World in the Grip of an Idea.*

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Almost from the beginning, national independence meant much more than removing English political control from America. It meant that, of course, and that was what the Declaration of Independence was about. Beyond that, however, thoughtful Americans were not long in concluding that it would be best to follow a politically independent course toward Europe generally. To that end, provisions should be made to retire the foreign debt, the United States should avoid making alliances which entangled them in European quarrels, and, in general, avoid dependence on foreign governments.

George Washington stated the ideal clearly and directly, yet diplomatically, in his Farewell Address:

> The great rule of conduct for us in regard to foreign nations is, in extending our commercial relations to have with them as little *political* connection as possible. So far as we have already formed engagements let them be fulfilled with perfect good faith. Here let us stop.

He went on to point out that the United States enjoyed the advantage of distance from Europe and could, by making the effort, gain the necessary respect to have other nations leave us alone. He recommended independence strongly:

> Why forego the advantages of so peculiar a situation? Why quit our own to stand upon foreign ground? Why, by interweaving our destiny with any part of Europe, entangle our peace and prosperity in the toils of European ambition, rivalship, interest, humor, or caprice?

He made clear, however, that in recommending independence he was appealing to enduring principles, not simply a favorable set of circumstances:

> Harmony, liberal intercourse with all nations are recommended by policy, humanity, and interest. But even our commercial policy should hold an equal and impartial hand, neither seeking nor granting exclusive favors or preferences . . ., constantly keeping in view that it is folly in one nation to look for disinterested favors from another; that it must pay with a portion of its independence for whatever it may accept under that character. . . . There can be no greater error than to expect or calculate upon real favors from nation to nation.

But this was more than presidential rhetoric; it was the cogent statement of what was an American ideal in the nineteenth century. While he was President, Washington had to take a stand on American national independence. When war broke out in Europe in the wake of the French Revolution, both France and England tried to involve the United States in it. Washington proclaimed the neutrality of the United States, and this proclamation was later affirmed by the Congress.

During the Napoleonic Wars other Presidents and Congresses

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took even stronger action to follow an independent course. There was the Embargo Act of 1807, the Non-Intercourse Act of 1809, and Macon's Bill Number 2, passed in 1810. Finally, when the United States went to war against England in the War of 1812, it did so independent of the other warring powers, or, as President Madison put it in his war message: "avoiding all connections which might entangle it in the contest or views of other powers. . . ."[1] Indeed, until well into the twentieth century, the United States followed a resolutely independent course in international affairs.

National Independence from Control by Foreign Nations

National independence, then, means the independence of the United States government from domination, control, or political influence of foreign nations. It carries with it, of course, the freedom of the American people from such domination or control. It does not connote any opposition to trade, exchanges, or discourse between the people of the United States and those of other lands nor of the dependencies and interdependencies that may arise from these activities. And it certainly does not mean that the government of the United States is independent of the electorate, nor the branches of the government entirely independent of one another, nor that the federal government is independent of the states.

The original states were independent of the United States government in that they existed prior to the national government. They were formed before the Articles of Confederation were adopted. They had governments and constitutions of several years standing when the United States Constitution was ratified. They retained most of their independence under the Constitution, and when new states came into the union they shared in such independence.

The federal system of government was devised for the purpose mainly of enabling the states to retain their independence. There was some talk at the Constitutional Convention of a consolidated government under which the states would become mere appendages. The idea did not gain favor. On the other hand, there was much sentiment in favor of a general government which would not be dependent upon the states for its revenue and force. They attempted to resolve the problem by tracing the authority and power of the general government to the people. This is not only stated in the Preamble—"We the people of the United States . . . do ordain and establish this Constitution for the United States of America"—but also by the method of ratification and choosing those who would govern.

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There are some lines of dependence running both ways between the United States government and those of the states. For example, the original states were to come into the union by holding ratifying conventions. The initiative for doing so rested with the states. (The question never was answered as to what would happen to a state which did not ratify the Constitution, and the document itself is silent on the point.) Elections are held within states for Federal officeholders, and some of the rules are left to state determination. Moreover, in the original Constitution, Senators were to be appointed by state legislatures. The states are dependent upon the United States government for the conduct of foreign relations, for the regulation of commerce, and to "suppress Insurrections and repel Invasions." Also, the United States is charged with guaranteeing to each state a republican form of government.

Independence of the States

The ideal, however, was the independence of the states. At one place in the Constitution, as noted, the general government is authorized to suppress insurrections. At another, however, it says that "on the Application of the Legislature, or of the Executive (when the Legislature cannot be convened)" the United States shall protect each of them "against domestic violence." The tendency of this is to leave to the states the initiative in seeking aid from the general government.

The crucial point, though, is that the powers to be exercised by the states are not set forth in the United States Constitution. They do not, therefore, derive from it. Certain powers are denied to the states. For example, "No State shall enter into any Treaty, Alliance, or Confederation. . . ." Beyond the denial of certain powers to the states, however, there is only the provision of the Tenth Amendment: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people." In short, the powers of the states have an origin independent of the United States. They exist in their own right and are not derivative.

There are beliefs so firmly ingrained, so generally accepted, and so much a part of a people's make-up that they do not feel a need to make extended statements about them. The belief in the desirability of personal independence was like that for Americans. They made no proclamations about it, issued no manifestos, nor ever set aside a day for it. (One exception comes to mind, the Declaration of Female Independence set forth in the 1840s. But that had political overtones.) Americans were

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long vocal about their rights. Individual liberty was the subject of treatises, declamations, essays, and even poems. As George Washington said in his Farewell Address, "Interwoven as is the love of liberty with every ligament of your hearts, no recommendation of mine is necessary to fortify or confirm the attachment."

Independence of the Individual

By contrast, the desirability of personal independence was an assumed value. One can glean it from folk sayings such as that a man ought to stand on his own two feet, that he ought to be beholden to no one, and the longing with which boys looked forward to becoming men of their own. The belief in it as a value did lead some to write essays on self-reliance. It was the usually unstated means to the widely valued end of self-fulfillment. It moved Jefferson to write these words in favor of the agricultural over the industrial way of life: "Those who labor in the earth," he said, "are the chosen people of God, whose breasts he has made his peculiar deposit for substantial and genuine virtue. It is the focus in which he keeps alive that sacred fire. . . . It is the mark set on those, who not looking up to heaven, to their own soil and industry, as does the husbandman, for their subsistence, depend for it on casualties and caprice of customers. Dependence begets subservience and venality, suffocates the germ of virtue, and prepares fit tools for the designs of ambition. . . ." Whether Jefferson was correct or not about the virtues of the agricultural life, he bespoke a common belief in the necessity of personal independence as the bulwark of a free republic. As he put it, "It is the manners and spirit of a people which preserve a republic in vigor. A degeneracy in these is a canker which soon eats to the heart of its laws and constitution."[2]

If one man had to be chosen as the apostle of personal independence in America, I would nominate Benjamin Franklin. He did not write much directly about it, yet it was the central concern of so much that he did write in *Poor Richard's Almanac*. Note these admonitions about going into debt:

> . . . Then since, as he [Poor Richard] says, *The Borrower is a Slave to the Lender, and the Debtor to the Creditor,* disdain the Chain, preserve your Freedom; and maintain your Independency: Be *industrious* and *free;* be frugal and free.[3]

Franklin wrote ever and again about the importance of work, of rising early, of applying oneself diligently, of doing without luxuries, of saving, of investing, and so on. He did not always connect these admonitions with independence, but he did often enough to make clear that it was a central goal, as when he said:

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"*Frugality* and *Industry* freeing me from my remaining debt, and producing affluence and independence. . . ."[4]

Perhaps the best evidence of all of the role of the ideal of personal independence is the great propulsive migrations by which America was settled. In the hope of independence, people crossed the ocean, went into the wilderness, hacked out a clearing, built rude houses, and sought to make a living. In the same quest, they moved out upon the Great Plains, devised ways to turn the heavy sod, learned to make do without trees, and began to produce the great quantities of grain for which America became famous. Nor did it end there. Others sought passes through the Rocky Mountains, loaded their Conestoga wagons, and pressed on to the Pacific. The vision that drew them was of a place of their own, hopefully fertile, where a man might raise his children in independence, and look after his own. This quest was in considerable measure the saga of America.

Avoid Entangling Alliances

George Washington believed that the key to national independence was to abstain from *permanent* alliances with foreign powers. Temporary alliances might properly be formed from time to time for joint purposes. He approved, too, acting with other peaceful nations to advance rules of trade and exchange. For example, presumably he would have favored such things as international copyright agreements. My main point, however, is that it was the permanency of alliances that he thought crucial. *Entangling* alliances were also often proscribed in the early years of the Republic. Those are alliances in which there are prior commitments to actions in which one may be drawn by other nations.

There is a clue in this to the maintenance of independence, whether of nations, states within a nation, or individuals. As noted earlier, independence does not imply a lack of relations with others. Indeed, there is some measure of dependency entailed in all interaction; production, construction, trade, commerce, sports, entertainment, public worship, communications, and so on, require interdependency. To forgo this would be to forgo all social cooperation, and if it were consistently carried out life itself would become impossible.

The distinction is not between independence and dependence or interdependence; rather, as Thomas Jefferson suggested, it is between independence and *subservience*. To put it another way, independence is threatened or being lost at the point at which dependence becomes subservience.

When does dependence become

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subservience? Dependence is on the way to becoming, if it has not already become, subservience when it becomes permanent. Dependence is headed for subservience when one becomes so entangled with others in interdependency that he can no longer determine his course. To put it more broadly, dependency becomes subservience at the point at which one party regularly serves the other(s) at the behest of the latter. When interdependence loses its mutuality, subservience follows.

Seeds of Servitude Within the Family

Pathological conditions that sometimes develop in children-parent relationships illustrate the permanency factor. Infants and small children are dependent upon their parents, more or less absolutely. As the children grow up, they learn and are taught how to become progressively independent. If, however, the child insists upon being served by his parents regularly after he could do for himself, he is trying to induce servitude into the relationship. On the other hand, if parents cling to their grown children, insist on their living at home and doing for them, that can become a form of servitude. Permanent dependency begets servitude.

Entanglement is the mode of collectivism. Collectivist democracy is a device for getting everyone's affairs entangled with everyone else's. Collectivism proceeds by describing our interdependencies as requiring common decisions. The decision-making process—the vote—becomes a means for rigidifying interdependency as entanglement.

Americans are by way of losing their independence. Individuals are becoming increasingly dependent upon government, and the dependence is becoming fixed. The states have lost much of their independence by changes in their relation to the federal government. Our national independence has been seriously compromised by both entangling alliances and by the belief that we should only act in foreign affairs in concert with other nations.

It is an attractive notion that Americans have been seduced into yielding up their independence, that they have been surreptitiously induced to sell their heritage for a mess of pottage, so to speak. It is not only attractive, but much evidence could be adduced in support of the notion. Undoubtedly, politicians have laid great emphasis upon the gains and downplayed the costs when they were advancing their programs. Undoubtedly, too, many intellectuals have drawn beautiful word pictures of the future their ideas would bring into being when put into effect. The thrust to socialism, by which so much of independence is being lost, has been ad-

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vanced by every artifice known to man.

That, however, is a considerable distance from being the whole story. The Founders of the United States, who knew next to nothing about what we call socialism, would not have been surprised by the loss of independence by Americans. Many of them feared that the Republic they brought into being, the federal system they devised, and the rights they proclaimed would not last. They knew that constitutions are but pieces of paper unless men breathe life into and sustain them. They knew what we seem to have forgotten, that governments are derivative not originative, and that republican governments derive their style and modes from the life of the people. When these have degenerated, the people will be "fit tools," as Jefferson put it, "for the designs of ambition," and rule will be by those who are most proficient in drawing up such designs.

Government Is Not Creative

The late Ludwig von Mises concluded that government cannot create money. On the contrary, money comes into currency by the valuations people place on certain goods as money. Governments can adopt such currency; they can place their stamp upon it, but its value does not derive from government. They can, of course, debase it, counterfeit it, and flood the market with simulacrums of it. In short, they can exploit it, but they cannot create it.

In like manner, personal independence, the independence of states, and national independence arise from the habits and spirit of a people. If they are not there government cannot create them. If they are there, representative governments have rough sledding in debasing them. In fact, representatives lack the incentive for attempting it.

My point is this. Americans, by and large, lost the habits and spirit of independence before they yielded it up by way of government action. As recently as 1914, say, the United States was following a resolute course of national independence. The states were still on their historic path of independence from the general government. (It should be noted, however, that the Seventeenth Amendment had just been ratified, providing for the direct election of Senators, thus removing some of a state's leverage in maintaining independence.) Nor had the populace become dependent upon government to any significant degree.

Nonetheless, increasing numbers of Americans were already developing habits of dependence. Millions of Americans were going into factory, mine, and mill for work. There they became dependent upon others to provide them with a job. Millions of

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others had become or were becoming share croppers and tenant farmers. These depended upon the landlord for housing, land, and for much of the capital with which to operate. In the absence of coercion, they were free, but to the extent that they remained in these conditions they became acclimated to dependence.

Indebted and Dependent

Living "on credit" became a way of life for many people. Farmers frequently borrowed against the forthcoming crop, not only for seed, fertilizer, and equipment but also for buying food and clothing. If the crop was not as large as anticipated, or if prices were lower, they would be unable to pay off the debt. Thus, they would go from year to year indebted and dependent upon the creditor. Wage-workers, too, often stayed in debt to storekeepers. "Easy terms" were becoming more generally available in the 1920s, and more and more people were availing themselves of the opportunity to "enjoy" new appliances and automobiles while they paid for them. Farmers borrowed from banks to buy farms, and many who got into straitened circumstances mortgaged their land and buildings to get money to operate. Businesses turned to credit for expansion. Indeed, by the late 1920s, an unprecedented number of people were trying to get rich on the basis of credit by buying common stock "on margin."

Government did have a hand in this mounting dependence on credit. The Federal Reserve system fueled this credit binge by making easy money available on a large scale. (It was doing on a much broader scale what fractional reserve banking had been doing periodically for some time.) The habits of dependency were now widely formed and deeply ingrained.

The credit-fueled prosperity of the 1920s was like a house built upon sand. It could not stand when the storms of adversity came. The government gave, and the government took away. The Federal Reserve banks raised the rediscount rate and tightened the credit restrictions. A wave of selling hit the stock market, and as prices fell, more and more margin buyers had to sell. In the wake of the stock market crash in 1929, the house came tumbling down, so to speak.

Collectivist thought offered the solution that would be adopted. Habits of dependence prepared fertile soil in which collectivism could grow. In the 1930s, many people gladly availed themselves of one or more of the great array of programs which governments offered for aid and relief. Unionist collectivism made great strides as governments adopted policies promoting collectivist activity. Habits of dependence

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were creased in the mold of permanence by the force which government intruded into the situation.

Stages of Dependency as Government Intrudes

There has been a pattern to the yielding up and loss of independence in America. First came the development of habits of dependence. The spirit of independence, where it had been acquired, was not strong enough to resist the lure of the gains from dependence. In this first stage, to the extent that government played a role, it was usually remote and indirect.

The second stage is widespread dependence of people on government. This has taken hundreds of forms: a moratorium on mortgage payments, government guaranteed loans to business, government guaranteed loans for farmers and homeowners, crop subsidies, relief payments, privileges for collective action, social security, government decreed minimum wages, housing projects, school lunch programs, and so on, almost endlessly. Much of the dependence has become permanent, and living off government favors a way of life for many people.

The third stage is the loss of independence by the states. They have become increasingly dependent on the federal government. Many programs have been enacted by which Federal funds are made available when states provide their portion of the funds. Highway building has become increasingly dependent upon Federal funds. Federal funds for schools have become an ever more important source of monies for these. So called revenue sharing by which Federal funds are parceled out to the states is one of the more recent of such activities. (Since the federal government has been operating with a deficit, it has had no excess revenue to share. It might better be called sharing in the proceeds of the mounting Federal debt.)

Though the states yield up much independence of action by participating in these programs, they have also lost much of their independence by Federal intrusion. The centralization of power in Washington has been accompanied by its decline in the states. By congressional enactments and court decisions uniform rules prevail in many areas throughout the United States. The states are losing much of their authority over city and local governments because there is so much direct Federal aid and control over them.

The independence of the states is important as an expression of local preferences and ways, the political reflex of an independent people. Its ultimate importance, however, is as a counterweight to the overweening power of the federal government. Power diffused is power contained

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and limited, the necessary condition for the liberties of a people. The intermingling of Federal and state power is hardly distinguishable from its being concentrated in one government and unrestrained.

The fourth stage, the yielding of national independence, has been the result both of the general decline in the spirit of independence and of the thrust to collectivism. Since World War II, the United States has followed a course compromising and detrimental to national independence generally. By participating in the making of the United Nations Charter, joining the organization, and participating in its decisions and actions, the United States has committed itself, symbolically at least, to collective action. The United States has committed itself to a series of mutual security pacts which were nothing short of permanent alliances. These, and other international agreements, constitute entangling alliance. Many American leaders have come to expect that other nations will, or at least should, act with the United States against their own interests. The compromise of national independence has succeeded only thus far in proving that George Washington was right in his Farewell Address.

Whither independence in 1980, then? Much of it remains only in the memories of some of our older citizens. By their dependence upon government many have surrendered their independence for the promise of security. State and Federal action has been so intertwined, Federal control so vastly expanded, and local governments so drawn into a dependence on the federal government that what remains of state indepedence takes on the appearance of relics. National independence has been compromised, hamstringing the nation in international affairs with little compensating augmenting of power.

We have neglected the sage advice of the Founders, and we are reaping the consequences. Ask not for whom the bell tolls, as the poet said, the bell is tolling for the passing of American independence.

Rekindling the Spirit

I, for one, have no desire to attend a memorial service for American independence this Independence Day, 1980. The recalling of the signing of the Declaration of Independence can have but one useful purpose—to kindle anew the spirit of independence which gave rise to the events which we bring to mind. Better that the day should pass unnoticed, however, than that it be utilized simply for the call for some kind of political action. There is undoubtedly much political action needed to undo much of what has been done in the last half century or so. There was

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much political activity which preceded and followed the signing of the Declaration of Independence.

But political activity from a people whose dependence has rendered them subservient would be little to the purpose. Republican government can hardly rise above its source in the people. It is the spirit of independence which produces independence. It is the habits of independence which maintain it. If we wait until the Federal Reserve system has been abolished to retire our personal debts, we will never be prepared to favor its abolition. If we wait to practice independent habits until the programs which foster our dependence are abolished, we could not endure it when it happened. When we have men who have resolutely trod the path of personal independence we shall have men who are worthy of political office, because they will be men, by and large, who do not want it. Then, we will have political action to the purpose.

Benjamin Franklin believed that personal independence was essential to individual morality. George Washington believed that national independence was essential to right action by nations. Thomas Jefferson believed that only those men who looked up to Heaven for their well-being would keep alive the love of liberty. Their vision of independence is surely worth recalling, and a day on which the spirit was rekindled would be worth celebrating.

—FOOTNOTES—

[1]Henry S. Commager, *Documents of American History*, vol. I (New York: Appleton-Century-Crofts, 1962, 7th ed.), p. 209.

[2]Quoted in Vernon L. Parrington, *The Colonial Mind* (New York: Harcourt, Brace and Company, 1954), p. 353.

[3]Edwin H. Cady, ed., *Literature of the Early Republic* (New York: Holt, Rinehart and Winston, 1950), p. 311.

[4]Gerald N. Grob and Robert N. Beck, *American Ideas*, vol. I (New York: Free Press of Glencoe, 1963), p. 126.

IDEAS ON LIBERTY

A Blessing in Disguise

THE great truths of humanity do not spring newborn to each new generation. They emerge from long experience. They are the gathered wisdom of the ages. They are renewed in times of conflict and danger. In this sense, the current challenge to our political institutions may prove to be a kind of blessing in disguise. If the times in which we are now living do not bring a further understanding of the great traditions of our civilization and a deeper desire to affirm them, we are not worthy of our heritage.

E. SMYTHE GAMBRELL, "Our Principles of Freedom Must Stand"

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John V. Denson

DEMOCRACY AND FREEDOM

A common error in political dialogue today is the interchangeable use of the words "democracy" and "freedom," as though they mean the same thing. They definitely do not; in fact, democracy can be a severe threat to freedom and individualism.

One of the most astute and intelligent observers of the American experiment with democracy was a Frenchman, Alexis de Tocqueville. His classic, *Democracy in America* was published in 1835, soon after his visit to America. The book is more pertinent today than when it was written. Tocqueville then theorized about the nature of democracy and its dangers to freedom, but these theories have been proven correct, to a great extent, in the 20th Century.

Tocqueville recognized that aristocracy, monarchy, and such forms were quickly dying out in the West and that democracy was the wave of the future. The Old-World system of legalized privilege, which was inherited, and rule by the few, was being overthrown in favor of equality of opportunity and mass political control. Tocqueville stated very prophetically that, "The destiny of the world will be in the hands of America and of Russia; these two great nations, each going a different way, will determine what will happen."

Tocqueville further stated that "Democracy is irresistible, it is going to come." "Democracy has enormous benefits . . . but also

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democracy has the most dangers. We had better prepare for it so we take advantage of the benefits and avoid the dangers. Democracy is potentially the best of all forms of society and government; it is also one of the most dangerous forms of all society and government."

Potential Tyranny

One danger that Tocqueville saw was the potential tyranny of the majority and loss of individualism due to enforced conformity by an uninformed, and possibly, manipulated public. He also saw a threat to both civilization and culture in democracy. He pointed out that in aristocratic societies you saw instances of great wealth and extreme poverty, great learning and extreme ignorance. In a democratic society, the extremes would be more or less eliminated and a much higher general standard of living would be available. He stated, "a state of equality is less elevated but it is more just; and its justice constitutes its greatness and its beauty."

Tocqueville warned that a democracy must be very careful not to stamp out dissent which provides meaningful change. He recognized that differences of opinion often produce the most progressive changes and that conformity produced by a democracy could severely restrict such progress.

Tocqueville also saw that centralization of power in a government run by an unelected bureaucracy would continue to be the great threat to individual liberty in the democratic system just as it had been under the old, autocratic systems. He felt that centralization of power and democracy may be even more of a threat in a democratic state since the public would tend to be less suspicious of a government when the people possessed the right to vote and to elect their representatives.

When kings and aristocrats ruled, the people knew they had to be suspicious and careful of government since they realized that they had little influence or power. However, democracy had the potential to create a false sense of security from the force of government. One of the architects of the American system of democracy, George Washington, continued to recognize the true nature of government, even though democratic, when he stated: "Government is not reason, it is not eloquence—it is force! Like fire, it is a dangerous servant and a fearful master; never for a moment should it be left to irresponsible action."

Following the lead of Tocqueville in analyzing democracy, two English libertarians, in a later period, seemed to grasp, better than Tocqueville, that democracy would not necessarily change the true nature and danger of government.

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Herbert Spencer stated: "When we have made our constitution purely democratic, thinks to himself the earnest reformer, we should have brought government into harmony with absolute justice. Such faith, though perhaps needful for the age, is a very erroneous one. By no process can coercion be made more equitable."

The Initiation of Force

Spencer's student, Auberon Herbert, correctly perceived that it was the initiation of force which was the key to tyranny and he stated: "Majority rule is not founded—any more than the emperor's rule—on reason or justice. There is no reason or justice in making two men subject to three men . . . no one has the moral right to seek his own advantage by force. This is the one unalterable, inviolable condition of a true society. Whether we are many or whether we are few, we must learn only to use the weapon of reason, discussion, and persuasion."

One of the authorities on Tocqueville's *Democracy in America* is history professor Henry Steele Commager. He recently appeared on the television program, "Bill Moyers' Journal," and analyzed Tocqueville's book. Commager commented that all governments, even democracies, advance like gravity in a natural flow, towards centralization, but that liberty does not. He stated: "Liberty must be worked at, must be achieved, and it has rarely been achieved anywhere in the whole of history. It requires a most extraordinary self-control, self-denial, wisdom, sagacity, vision to protect liberty in the face of all the forces that mitigate and militate against it. And Tocqueville regarded centralization as the most dangerous of all the threats to liberty."

Commager's quote about the nature of government gives special emphasis to the earlier warning: "Eternal vigilance is the price of liberty."

Commager also reminded us that Nazi Germany was a result of the democratic process and "is perhaps the outstanding example in modern history of how an overwhelming majority can exercise the most ruthless tyranny over a minority." Governments throughout the democratic West continue to grow larger and to become more oppressive, especially in the area of taxation. Government domination of education and regulation of almost every form of human conduct, especially in economic matters, is far more extensive today under democratic governments than existed in the Old-World autocratic systems of the past.

Our present situation in democratic America, where we are being threatened with a peace-time draft and actually have a large portion of our Army stationed in Europe and

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other foreign countries coupled with numerous entangling treaties, would have been unthinkable conditions to our founding fathers. Democratic governments in the 20th Century have shown strong militaristic tendencies and have produced the most widespread wars known to mankind. The noted historian, Arnold Toynbee, author of the massive, six-volume *A Study of History,* questioned the assumption that democracies were automatically more peace-loving or anti-militaristic than other forms of government. He also found "the suicidalness of militarism" by far the most common cause of the breakdown of civilizations.

Professor Commager, at the conclusion of Bill Moyers' interview, and after being asked to comment upon the future of democracy, said, "I feel like Justice Holmes, late in life, when some of his young clerks came back to him and he said, 'I myself have little hope for change, but I'm happy to see that the younger generation consults its hopes and not its fears.' "

We must continue to recognize that democracy, while being the best form of government, nevertheless, like all government is potentially dangerous, depending upon its size and power.

No government, even a democracy, should have the right or power to initiate force; it should only repel or defend against force. Government must be kept extremely limited in its scope of influence, and individual rights must be carefully protected. We should never lose sight of this goal nor lose hope of achieving it.

IDEAS ON LIBERTY

Democracy in America

OUR contemporaries are constantly excited by two conflicting passions; they want to be led, and they wish to remain free: as they cannot destroy either one or the other of these contrary propensities, they strive to satisfy them both at once. They devise a sole, tutelary, and all-powerful form of government, but elected by the people. They combine the principle of centralization and that of popular sovereignty; this gives them a respite: they console themselves for being in tutelage by the reflection that they have chosen their own guardians. Every man allows himself to be put in leading-strings, because he sees that it is not a person or a class of persons, but the people at large that holds the end of his chain.

ALEXIS DE TOCQUEVILLE

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Jack D. Douglas

ALL educated Americans are aware that the eighteenth century was an era of intense international conflict, if for no other reason than the fact that the French and Indian War and the American Revolution were minor parts of the great international conflicts raging from England to India. Fewer of them are aware that the Americans were able to win their war against the far more powerful British precisely because theirs was a minor war, almost a side-show, in the bigger struggle which kept the British pinned down around the world. Almost none of them know that this century of wasteful warfare (which I think should be called the First World War and our most recent one the Third) and its culmination in the catastrophe of the French Revolution and Bonapartism was highly "rational" from the standpoint of the political economic theories dominant among European rulers.

But how could such a vast waste of human life, of accumulated wealth cast into guns and shot instead of industrial investment, and of human creativity be "rational"? It's frighteningly simple when you understand the fundamental premises of Mercantilism, the political economic theory which dominated the thinking of rulers and most "practical" men.

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Mercantilist theory took the common-sense view of wealth and applied it to the national level. The key idea is that the precious metals, gold and silver, constitute the real wealth of a nation, so the nation should maximize its possession of gold and silver. The mercantilists also assumed that the primary way by which this could be done (in all nations without gold and silver mines) was by maximizing exports and minimizing imports. They would thus receive more payments of precious metals than were paid out. And, fatefully, they also assumed that the most efficient means of doing this is by controlling the foreign markets which buy one's exports. These assumptions led them to the logical conclusions that they should maximize their political (military) power to control colonies abroad (or, at least, markets) and, most fatefully, that they could only become more wealthy by decreasing the wealth of other nations by using such power.

One's Gain, Another's Loss

The mercantilist ideas thus led the rulers to look at their relations with other nations in a "beggar thy neighbor" way, or what economists call a zero-sum game: if you gain, I necessarily lose; if I gain, you necessarily lose. The only rational thing to do, if you wanted to be richer, or simply avoid getting poorer, was to seize foreign markets and precious metals. Since everyone looked at it the same way—War.

All of those assumptions were wrong, as all economic history since then has shown, yet *almost* all of the brightest people, from goatherds to prime ministers and kings, believed those things implicitly. The genius of classical economics, especially of David Hume's theories of money and international trade, of Adam Smith's theory of economic growth or wealth, and of Ricardo's theory of comparative costs, consisted in showing how they were wrong and how all nations could get richer at the same time and at vastly accelerated rates by an international system of cooperative competition.

In vastly oversimplified terms, they showed that money is merely an aggregate symbolic representation of the exchange value of real goods, so that an increase in the quantity of money of any form will in time only produce higher prices (unless the real goods have increased); that this works internationally as well as within a nation; that all increases in real wealth come only from increased efficiency and investment; and, fatefully, that two of the major ingredients of efficiency are (1) task specialization, which allows those most skilled to produce goods at lowest cost and, thus, price, and (2) competition, which not only spurs people to greater effort to be

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efficient, but also allows the natural selection of the most efficient and the subsequent redirection of the casualties into more efficient production.

The general implications were exactly the opposite of Mercantilism. A nation that only increases its money only increases its prices. (This is what Spain did by seizing the gold and silver of the Aztecs and Incas. The resulting inflation prevented the rise of industrial production because it was cheaper to buy from abroad, due to long time lags in the spread of the inflation, and produced a basic movement away from efficient investment. The most successful of all mercantilists was the biggest disaster.)

Free Trade

A nation that directs its wealth to the military destruction of wealth decreases its wealth. A nation that insists on buying its own goods when it could import them more cheaply because foreign task specialists are more efficient in those goods gets poorer, not richer. The general implication was that all nations should stop wasting wealth in war, concentrate on saving and investing and becoming more efficient, and compete peacefully (cooperatively) with complete freedom of economic competition among and within the nations.

These classic ideas of classic liberalism (the opposite of American "liberalism" today) became the dominant ideas of the ruling elite in the first three quarters of the nineteenth century. *Laissez faire* ideas in international trade and politics were never completely applied even in England, but on balance they were distinctly dominant. This was an era of almost unbroken peace in Europe, a rare thing in European history, an era of exploding wealth, and an era without major internal economic civil war (class warfare).

That era began to end in 1870 with the Franco-Prussian war. That war owed much to the old bitterness between the two nations, especially the Prussian resentment of the defeat by Napoleon. But it is also very important that the German political economists had turned strongly toward a form of neo-Mercantilism embodied in the ideas eventually of the institutional economists, List and Sombart. (Germany never really accepted the liberal theories very much. The so-called classicists held sway until the institutional theorists entered the scene.)

The institutional economists argued strongly, even bitterly, that institutions, especially political ones, are the ultimate determinant of wealth. Most ominously of all, they argued that international free trade was rigged in favor of the rich and already efficient and, thus, was

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against the interest of unindustrialized Germany. They insisted on protective tariffs to protect their industries from "unfair foreign competition." The defeat of France led to an immediate flip-flop of the French social analysts (especially the lions of Paris, Renan and Taine) from internationalism to nationalism.

A great, decade-long economic depression hit the West in 1873. Nations everywhere began building tariff walls to protect their industries from bankruptcy. The political voices of neo-Mercantilism became dominant even in England in the great new surge of imperialism in the late nineteenth century. The zero-sum game returned with vigor as nations tried to build their exports and minimize the costs of imports by controlling colonies. The armies grew, the navies grew. By the early twentieth century Europe was a "tinder-box" armed to the teeth, living breathlessly through one military-political incident after another, lulled by the century of peace and wealth produced by ideas now rejected as absurd, waiting unknowingly for the random match of Sarajevo. Zero-sum thinking produced the inevitable conflict.

The Growth of Socialism

The imperialist and protectionist theories were joined in the late nineteenth century by a far more rhetorically powerful zero-sum theory—the melange of ideas known as Socialism. Socialism rejected all the ideas of the liberals and reinstated in somewhat different (and certainly in a hidden or "cleaned up" form) the ideas of the Mercantilists. Above all, they insisted that one man could only get wealthy at the expense of another: if one man hired another and got money from his efforts, then the hired man was "exploited," or lost, even though they both got richer by the transaction. Only complete equality, an end to the competition that gave the more efficient an advantage over the less efficient, and an end to the interest advantage of saving could lead to wealth for everyone. Otherwise, the zero-sum process would inevitably lead to greater concentration of wealth in fewer hands and the deprivation of more and more. The conclusion: class warfare within and across nations is inevitable and glorious—War!

All Western history has proven the socialist myth false. But myths are created and accepted because they appeal to deep feelings, especially those like envy, resentment, fear and aggression. These particular zero-sum myths could not be accepted by many educated people because they were so clearly wrong. But their emotional appeal led inventive people to find a new way—the Keynesian revolution.

Keynes himself did not agree with

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many of the ideas of the socialist zero-sum game, though he was emotionally committed to the working class cause before he developed his theory.

"Oversaving"

The high unemployment rates of Britain during the 1920s (as much as 10 per cent) can be explained by classical economists as due to the deflation caused by Britain's return to the gold standard (at parity value) in the 1920s; higher taxes forcing capital abroad; an inefficient (thus more costly) work force at home, because of union monopoly powers granted politically in 1906, leading to the same capital flight; the growing taxes used to pay for the new unemployment benefits causing further flight; and the increasing incentives of the unemployment benefits to avoid work—to be unemployed.

Keynes decided, without considering this kind of argument, that there was an inevitable tendency of a sort even Marx had not seen—an "inevitable" tendency of advanced capitalist societies to "oversave," or save relatively more than they invested, so you inevitably get unemployment. The remedy was to have the government intervene by using its borrowing and taxation powers to "give" money to consumers and, thus, increase demand, which would then increase incentives to invest, and eventually decrease unemployment.

The Keynesian Revolution consisted not only of this idea, but its combination with the old ideas of the socialist zero-sum theory. This started in Britain as early as the 1890s, became dominant there in the 1930s, and became dominant in the United States only in the 1960s. It now dominates the thinking of the great mass of our Western rulers and educated people. Everyone knows the ideas. Equality is the only way to maximize real wealth for everyone. Competition is the source of poverty, not wealth. Efficiency is repression. And, according to Keynes, we should emphasize consumption and decrease saving (oversaving).

Most fatefully of all, the instrument of all of this is the central power of government: government is to use its physically enforced powers of taxation to increase equality through redistribution of income and, most especially, by providing "services" to the "disadvantaged." (The implicit assumption, of course, is that under the laissez faire system the higher incomes of the few was due to their being unfairly "advantaged" by the system, not due to their greater efficiency in saving and investment and work—because it is always the case that one man's loss is another man's gain and vice versa—life is a zero-sum game!)

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This melange of Keynesian ideas and neo-socialist zero-sum ideas is what we know as the Welfare State theory.

The Redistributive State

The theory itself teaches, even insists bitterly, that life is a zero-sum game. In order for the less well off to get better off, something must be taken away from others. (Sociologists who share these views, which is most of them by far, call this a "conflict theory." Fateful name.) But, even if the state and the intellectuals did not teach people this, they would probably understand it or believe it. (The zero-sum game is really the most ancient way of thinking, found in all primitive societies and highly exaggerated in peasant mentality.) In any event, they all come to act in accord with the theory in the Welfare State dominated by that theory. That is, they all act as if they know and believe with all their hearts that someone else getting more means they are going to get less, and that the crucial thing is to get more than someone else—maximize your intake of government services, money and rights, and minimize your outflow of taxes and duties. The conclusion is now apparent to those with memories and eyes—War!

In our pluralistic societies of pressure group politics, in which there are many massive groups and in which political decisions are made by coalitions of these groups, the warfare is primarily between massive groups; but it also becomes more and more individual, as the individual comes more and more to play the same zero-sum game against the members of his own group. The overall effect is to pit each big group, and then individuals, against the others in an increasingly bitter struggle for the distribution of the pie—the rights, services, benefits, monies of the body politic—the spoils of victory.

In the societies that are relatively homogeneous, like Japan and Sweden, the war of all against all produced by the zero-sum assumptions of the welfare state comes much later and at a higher level of redistribution than in the highly pluralistic societies. The United States is unique among the Western nations (and very like Russia) in having a massive number of pressure groups and no dominant group. These groups, especially the ethnic and racial groups, already envied and resented each other, precisely as the nations of Europe did over the centuries. By greatly amplifying the zero-sum warfare games in our nation, the Welfare State Revolution has pushed us far along the road toward Hobbes' state of nature, that nasty and brutal war of all against all.

A nation that had little sense of

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historical community, and was pasted together with shallow patriotism and deep shared self-interest in making the whole nation richer by the pursuit of capitalistic growth for all, has been ripped and torn in every seam of its national life. Everything has become politicized—work, sex, parent and child relations, life itself. The most ignorant mugger in the big cities now mouths the zero-sum theories of our "liberal" (socialist) politicians. But we have only begun down the road to that great calamity of civil war, the war of all against all.

The zero-sum game of internal war will inevitably slow our economic growth to zero and possibly begin the final stages of deprivation—disinvestment of the British sort. When the pie becomes stagnant (the glorious goal of zero growth, at last!) these human beings turned into wolves will hurl themselves on each other in all their fury, unless their fury is directed against a common foe in the time-honored way of tyrants—foreign war! Or unless we use the solution the Russian socialist zero-summers know so well—tyranny.

IDEAS ON LIBERTY

Peace and Prosperity

WORLD leadership requires that we constantly defend the principles of individual liberty and free enterprise. At every opportunity we should call out to the world that only competitive private enterprise can lead to peace and prosperity. We have a glorious history of individual freedom and safety of property—the absence of nationalization and confiscation by an omnipotent state. Our recent excursions toward the Welfare State endanger our record—and ourselves. But if we will correct that trend, then with pride we can demonstrate to the warring world that individual liberty is the only durable foundation for peace and prosperity.

If our way is freedom, then other nations on their disastrous roads may someday listen to reason and follow us as all civilized nations followed Great Britain during the nineteenth century. Law, order, and peace may then return once again to a battered world suffering from an absence of individual freedom and free enterprise.

HANS F. SENNHOLZ, *Welfare States at War*

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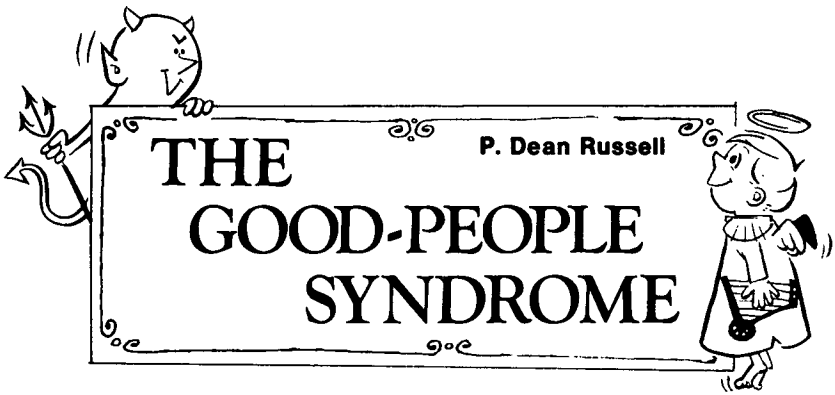

THE GOOD-PEOPLE SYNDROME

P. Dean Russell

Do you remember when we Americans thought of the Ayatollah Khomeini as a good man trying to help his people who were suffering under a dictatorial government? He was in exile in France, and he was getting a great deal of favorable publicity on international television as he taped his revolutionary messages and smuggled them back into Iran. His obviously sincere and deeply religious life-style—along with his promise of freedom and justice to his oppressed countrymen—won him the support of the overwhelming majority of the Iranian people. In addition, he soon gained the best wishes of good people all around the world, including millions of Americans.

Then the Ayatollah (the revered leader of the religion of the majority of his people) gained *political* control of the nation. He immediately began approving the confiscating of property from the rich and giving it to the poor, the kidnaping of hostages for ransom and blackmail, the restricting of minority religions throughout the land, and the public execution of "traitors and other enemies of the Iranian people."

To show their approval of the Ayatollah's particular brand of freedom and justice, the Iranian people voted overwhelmingly for a new constitution that made him dictator for life. Apparently they felt they could safely entrust their lives to such a good man.

The universal appeal of this persuasive idea of giving political power to "good people" to be used for the benefit of everyone has always been with us. It was an already-

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popular literary theme in ancient Greece when the philosopher Plato developed it into the political theory still studied by students of government in all nations today. We hear it everywhere in the United States in this popular political maxim: If we elect good people to public office, we'll have good government.

Goodness and Power

As I watched the unfolding of the most recent disaster to the Iranian people, the thought struck me that perhaps most of the evil in this world is committed by good people who are sincerely trying to help. Let it never be forgotten that the Ayatollah Ruhollah Khomeini is a good man who is quite willing to make every personal sacrifice in his sincere efforts to help his people. He does not wish to become rich from his efforts. When he refers to himself as a servant of God and of the people, he is totally sincere. He has always worked hard and lived frugally. He devotes much time to prayer. He would be called a good man in any nation and age.

Invariably, however, these good people become corrupted by the political power they possess to help others. The fact that they may be deeply religious seems only to increase the terror they use to do good as they understand it. To see this, you need only study the history of the Christian church (or the history of any religion) and note what happens when the religious leaders gain *political* power. Usually the corruption appears immediately. But sometimes it doesn't appear in a virulent form for a few months. Inevitably, however, this corrupting influence of power always appears, and the terror begins in one form or another. Even the leader of all Christians, Jesus Christ himself, recognized that fact when he indicated that the corrupting influence of earthly political power applied to him also. Thus he refused to accept it, even though he was tempted by the possibility of using it for a good purpose.

A primary reason that helps me to better understand this good-people syndrome (as well as to appreciate the corrupting nature of power and the desire for it) is that I once suffered from it myself. There was a four-year span in my life when I truly wanted to do good for the American people (and for the world in general) and wished I had the *political* power to accomplish my good intentions.

I was 16 years old at the time. I had just gone through a dramatic religious experience and I was firmly convinced I had discovered a sure way (and probably the only way) to eternal life. As a dedicated young man, I felt a responsibility to share my good fortune with my fellowmen. That's the nature of the

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good-people syndrome, i.e., we want to share and to help the less fortunate. We really and truly do, and we'll go to any lengths to accomplish it.

Youthful Victims

Probably all of us have endorsed this compelling syndrome to some extent at one time or another. We just wouldn't be human if we hadn't. In my classroom discussions with those wonderfully idealistic students between the ages of 17 and 23, I encounter this good-people syndrome all the time. Most of those students truly want to help their less fortunate fellow-humans all over the world. And some of them literally lust for the power of government to do good to mankind. They are beautiful people. I respect them and wish them well. And I also suggest to them that the desire to use political power to do good to people is bad for *everyone's* health, including their own.

While young people are perhaps more susceptible to this emotional good-people syndrome than are older people, it's a mental aberration that can strike at any age. And it can last from a few days to a lifetime. The Ayatollah Khomeini at age 80 has a far more severe case of this syndrome than I ever had in my teens. But I can better understand the irrational thought processes and abnormal actions of that elderly leader because I remember so well the devastating effect the syndrome had on me as a youth.

Beginning with my teen-age religious experience and continuing for several years thereafter, I would have been happy indeed to enforce a law that compelled everyone in the United States to join the "one true religion" I had accepted. I only wanted to help! And the idea of a government-enforced religion appealed to me then, just as it has appealed to many millions of Americans before me and still today. My reasoning at that time was as follows: "If *I* were blind to the truth like so many of my misguided neighbors, I would surely want them to do to me what I wanted to do to them—for their own good, of course." Fortunately for all concerned, I didn't have the power to impose my fantasies (my syndrome) on others.

In a like manner, the Ayatollah Khomeini will unhesitatingly use whatever means he has available to convert or destroy anyone who stands in the way of the advancement of *his* true-theological-political-system. Unfortunately, the Ayatollah has the political power to carry out many of his fantasies.

As often as not, the possessors of this good-people syndrome are fully prepared to die (literally) for what they believe will help other people. For example, I honestly believe that,

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at age 16, I was prepared to give up my life if that became necessary in my campaign to save the immortal souls of others. The Ayatollah Khomeini has stated several times that he expects to be killed because of his religious beliefs and the political actions that are inspired by them.

In short, the motives of us victims of this syndrome are unselfish and pure. We are truly good people who only want to help. And we are fully prepared to pay a high price personally for our beliefs and our desire to serve the people.

Strangely, only *good people* seem to become possessed by this particular mental abnormality. This is so much the case that I have here named this syndrome in honor of all good people everywhere who want to use political power to do good to others. While bad people, i.e., murderers and rapists, can also suffer from this syndrome, they seldom offer it as an excuse for their antisocial and destructive behavior. But our very best people, i.e., those who are most eager to do good to mankind, almost always use the good-people rationale to defend their actions. The fact that their programs don't work as advertised doesn't seem to distress them in the least. The failures aren't their fault! And since they're good people who are sincerely trying to help, they're always willing to try again.

This good-people syndrome has existed as long as mankind. It came with us; the first human beings to appear on earth were born with the desire to do good to others as they saw it. It is clear to me that this inherent emotion and compulsion was (and still is) necessary for the preservation of any sort of viable social order and for the survival of the human race itself. The absence of this compulsion, i.e., the absence of any desire to do anything at all to help any other human being, would obviously mean the end of mankind. Thus the only workable procedure we have (individually and then collectively) is to learn to control this inherent desire to impose our wills on others—even when we think it's for their own good.

I'm convinced this can be done because, to some considerable extent, I've actually learned to do it, i.e., I have resolved never again to use force or the threat of force (legal or illegal) to impose my will or viewpoint on any peaceful person. And I actually live by that principle to the full extent permitted by political reality and my own all-too-human fallibility. Thus while I may sometimes deviate from my own principle, at least I have a clear reference point and a basic guide to help me select the best alternative among the available choices.

Perhaps we could learn to follow this ideal: Let us help others by doing for them what *they* want done; if we

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can't or won't, then at least let us have enough respect for humanity to leave them alone. It's simply not a good idea to try to make over another human being in your own image. It can't be done and, anyway, one is enough.

Do you suppose this inherent good-people syndrome that causes us to try to impose our wills on others for their own good could be the "original sin" we're born with? At least that possibility would offer a logical explanation for those familiar allegories in all religions that tell us about cupidity and arrogance and ignorance—and the fall that comes with them.

IDEAS ON LIBERTY

Popular Causes and Unpopular Effects

It is being discovered that good intentions are not enough. If good intentions are to accomplish anything, they must be translated into concrete economic measures, and such measures may or may not produce the intended effects. Even if they do, they are almost sure to produce unintended ones as well. Where some groups are benefited, others are hurt. Competition for productive efficiency tends to degenerate into a scramble for political favor. Government of, by, and for the people tends to become government of, by, and for pressure groups. The promise of cradle-to-grave security weakens economic incentive, tends to make men financially irresponsible and reduce them to the moral level of dependent children. Why should a man strain nerve and muscle to provide for himself, to keep his job, to lay something by for a "rainy day," to make provision for his old age, to protect his family from want, when a paternal state promises to do these things for him? Every personal financial misfortune, every source of dissatisfaction with one's economic lot, tends to become a grievance against the State. . . .

When our own and other governments assumed or accepted the responsibility of protecting the people against the risks of unemployment, disability, old age, and other hazards, they built into their economies an inflationary bias against which they are still striving, in most cases with very indifferent success, and which, unless arrested, must eventually bring hardship rather than welfare, insecurity rather than security, to the intended beneficiaries.

From *The Guaranty Survey*, November 1957, Albert C. Wilcox, editor

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George Reisman

PROGRESS IN A FREE ECONOMY

THE FREE MARKET, operating through the profit motive, has been responsible for the tremendous success of the American economic system. It has ensured the maximum possible effort to introduce innovations and to extend their application as rapidly as possible, with the result that in comparatively short periods of time revolutionary improvements have become commonplace. Because of this and because of the rapid adaptation it assures to all changes in economic conditions, it has rendered every crisis, from natural disasters, to wars, to absurd acts of government, a merely temporary setback in a steady climb to greater prosperity.

The picture I have painted of a free economy is one of continuous progress and improvement. And so it has been in the United States over the last two hundred years, during most of which time we had a substantially free economy. As the free economy has come to be steadily undermined and the transition to a form of socialism drawn even closer, however, the foundations of economic progress have been eroded. For reasons that should become progressively clearer from now on, a controlled or socialist economy cannot have economic progress.

I believe that the advocates of socialism know this, or at least that they sense it, and that, as a result,

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they have launched a widespread campaign to try to deny the very possibility of continuous economic progress. The nature of their attempt is summed up in the phrase "The Limits to Growth." The motivation of the supporters of that phrase, I believe, is to be able to blame the end of economic progress not on the end of capitalism, but on the fundamental nature of the world.

Therefore, let us consider the basic facts that underlie the possibility of continuous economic progress.

How Knowledge Spreads

As far as man himself is concerned, the basic fact is that knowledge can be transmitted from generation to generation and that each generation has the ability to add to the total of what it has received. The only limit to this process would be the attainment of omniscience.

Let us consider the physical world in which man lives. Is there a limit to the supply of natural resources on earth?[1]

Yes, there is. But the limit is utterly irrelevant to human action. For practical purposes it is infinite, because the limit is the entire mass of the earth. The entire earth, from the uppermost limits of its atmosphere to its very center, four thousand miles down, consists exclusively of natural resources, of *solidly packed natural resources*. For what is the earth made out of? It is made exclusively out of chemical elements found in different combinations and in different proportions in different places. For example, the earth's core is composed mainly of iron and nickel—millions of cubic miles of iron and nickel. Aluminum is found practically everywhere. Even the soil of the Sahara desert is comprised of nothing but various compounds of silicon, carbon, oxygen, hydrogen, aluminum, iron, and so on, all of them having who knows what potential uses that science may someday unlock. Nor is there a single element that does not exist in the earth in millions of times larger quantities than has ever been mined.

Now this limit of natural resources has existed from the very first day that man appeared on earth, and in all the millennia since, it has not diminished by so much as a single atom. This is because chemical elements are never destroyed. They simply reappear in different combinations, in different proportions, in different places.

Resources Rearranged

Apart from what has been lost in a few rockets, the quantity of every chemical element in the world today is the same as it was before the Industrial Revolution. The only difference is that instead of lying dormant, out of man's control, the chemical elements have been moved

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about, as never before, in such a way as to improve human life. For instance, some part of the world's iron has been moved from the interior of the earth, where it was useless, to now constitute buildings, bridges, automobiles, and a million and one other things of benefit to human life.

Some part of the world's carbon, oxygen, and hydrogen has been separated from certain compounds and recombined in others, in the process releasing energy to heat and light homes, power automobiles and railroad trains, and in countless other ways serve human life. Nor is the world running out of energy by virtue of the energy released in these ways. For heat from the sun every year provides a constantly renewed supply that is millions of times greater than the energy consumed by man. It follows from these facts that all that has occurred as a result of the Industrial Revolution is that man has *improved his environment.*

Production Means Improvement

It should be realized that by its very nature, production means an improvement in the environment. All that production of any kind fundamentally consists of is the rearrangement of the same chemical elements that nature gives us, but in ways that make them stand in a more useful relationship to man. Consider further examples. To live, man needs to be able to move his person and his goods from place to place. If an untamed forest stands in his way, such movement is difficult or impossible.

It represents an improvement in the environment, therefore, when man moves the chemical elements that constitute some of the trees of the forest somewhere else, and lays down chemical elements brought from somewhere else to constitute a road. It is an improvement in the environment when man builds bridges, digs canals, opens mines, clears land, constructs houses, or does anything else that represents an improvement in the external, material conditions of his life. All economic activity has as its sole purpose the improvement of the environment: it aims exclusively at the improvement of the external, material conditions of human life.

In trying to restrict man's freedom to improve his living conditions, the misnamed "environmental movement" seeks to force man to live in a less favorable environment.

Now because the world is composed entirely of natural resources and possesses a virtually irreducible and practically infinite supply of energy, the problem of natural resources is simply one of being able to obtain *access* to them, of being able to *obtain command over the resources,* that is, of being in a position to direct them to the service of

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human well-being. This is strictly a problem of science, technology, and the productivity of labor. Its solution depends merely on learning how to break down and then put together various chemical compounds in ways that are useful to man, and having the equipment available to do it without requiring an inordinate amount of labor. Human intelligence certainly has the potential for discovering all the knowledge that is required, and in a free, rational society, the incentive of profit virtually guarantees that this knowledge will both be discovered and provided with the necessary equipment to be put to use.

An Impressive Record

The record of the last centuries, certainly, demonstrates that such a society has no problem of a scarcity of accessible natural resources. While the total volume of chemical elements in the world has remained the same, the volume of *useful* elements and compounds *at the disposal of man* has been enormously *increased.* Today, for example, because of improved knowledge and equipment, it is probable that man can more easily extract minerals from a depth of a thousand feet than he could a century ago from a depth of fifty feet. In the same way, he has learned how to use elements and compounds he previously did not know how to use—such as aluminum and petroleum, which have only been in use for approximately a century, and, more recently, uranium.

There is no reason why, under the continued existence of a free and rational society, the supply of accessible natural resources should not go on growing as rapidly as in the past or even more rapidly. Further advances in mining technology, for example, that would make it possible to mine economically at a depth of, say, ten thousand feet, instead of the present limited depths, would so increase the portion of the earth's mass accessible to man, that all previous supplies of accessible minerals would appear insignificant by comparison. And even at ten thousand feet, man would still, quite literally, just be scratching the surface, because the radius of the earth extends to a depth of four thousand *miles.* In the same way, dramatic advances are possible in the field of energy, such as may occur through the use of atomic energy, hydrogen fusion, solar power, tidal power, or thermal power from the earth's core, or still other processes as yet unknown.

Untouched Reserves

Because the earth is literally nothing but an immense solid ball of useful elements and because man's intelligence and initiative in the last two centuries were relatively free to operate and had the incentive

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to operate, it should not be surprising that the supply of accessible minerals today vastly exceeds the supply that man is economically capable of exploiting.

In virtually every case, there are vast *known* deposits of minerals which are not worked, because it is not necessary to work them. Indeed, if they were worked, there would be a relative overproduction of minerals and a relative underproduction of other goods—i.e., a waste of capital and labor. In virtually every case, it is necessary to choose *which* deposits to exploit—namely those which by virtue of their location, amount of digging required, the degree of concentration and purity of the ore, and so forth, can be exploited at the lowest costs.

Today, enormous mineral deposits lie untouched which could be exploited with far less labor per unit of output than was true of the very best deposits exploited perhaps as recently as a generation or two ago—thanks to advances in the state of mining technology and in the quantity and quality of mining equipment available.

As just one example, and a very important one, consider the fact that there are petroleum deposits in shale rock and tar sands in our own Rocky Mountain states and in Canada of a size far exceeding the petroleum deposits of the Arab countries. Until now, these deposits have not been exploited, because it has been cheaper to obtain petroleum from liquid deposits. Even though oil obtained in these ways would be more expensive than oil obtained in its liquid state, still, it is undoubtedly cheaper—in terms of the labor required to produce it—to obtain oil in these ways today than it was to obtain liquid petroleum a century ago and probably even a generation or two ago.

Technological Advancement

There is no reason why further advances in mining technology and in the availability of mining equipment would not enable oil obtained in these ways in the future to be less expensive than oil obtained in its liquid state today. Similarly, there are vast untapped known coal fields in the United States containing enough coal to supply present rates of consumption for many centuries.

In some important respects, these coal fields must be considered not merely a substitute, but the full equivalent of petroleum deposits. For it is possible to produce some of the identical products from coal as from oil—for example, gasoline. This too has not been done commercially until now, because it has been cheaper to produce gasoline from petroleum. But there is no reason why, with the further progress of technology and the availability of equipment, gasoline produced from

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coal in the future should not be cheaper than gasoline produced from oil today, just as gasoline produced from coal today would undoubtedly be cheaper than was gasoline produced from oil in the past.

> "The reader of this book may very well finish it with a radically different understanding of such events as the oil and natural gas crises, chronic power failures, and the decline of rental housing in places like New York City."
>
> —*From the introduction by William E. Simon*

If it were necessary, a free American economy could respond to a loss of foreign supplies by turning to such other sources of oil and gasoline as these, and, in not very much time, both through reducing their costs of production and by developing other, newer sources of fuel, would enjoy lower costs and more abundant supplies of energy than ever before. In a free American economy, it would not matter in the long run if the Arabian peninsula and its oil simply did not exist. As a free economy, we would not need Arab oil. Neither our survival nor our long-run progressive prosperity would depend on it.

The growing threat to the supply of natural resources that people are beginning to complain about is not the result of anything physical—no more than it was the result of anything physical in the days when these terrible words of despair were written:

"You must know that the world has grown old, and does not remain in its former vigour. It bears witness to its own decline. The rainfall and the sun's warmth are both diminishing; the metals are nearly exhausted; the husbandman is failing in the fields, the sailor on the seas, the soldier in the camp, honesty in the market, justice in the courts, concord in friendships, skill in the arts, discipline in morals. This is the sentence passed upon the world, that everything which has a beginning should perish, that things which have reached maturity should grow old, the strong weak, the great small, and that after weakness and shrinkage should come dissolution."[2]

That passage is not a quotation from some contemporary ecologist or conservationist. It was written in the *third century*—ages before the first chunk of coal, drop of oil, ounce of aluminum, or any significant quantity of any mineral whatever had been taken from the earth. Then as now, the problem was not physical, but philosophical and political. Then as now, men were turning

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away from reason and toward mysticism. Then as now, they were growing less free and falling ever more under the rule of physical force. That is why they believed, and that is why people in our culture are beginning to believe, that man is helpless before physical nature. There is no helplessness in fact. To men who use reason and are free to act, nature gives more and more. To those who turn away from reason or are not free, it gives less and less. Nothing more is involved.

Scarcity Is Inevitable if Socialism Prevails

There are no significant scarcities of accessible raw materials as yet. But the enemies of reason and capitalism sense the consequences of the social system that they hope to impose, and they project it on to the present. Thus they admonish us to save every little tin can and every scrap of paper. Their world, if it ever comes, will have to live like that. But we, who are capable of producing in abundance—we do not have to regard bits of garbage as priceless treasures.

To us, used tin cans, paper wrappings, and the like, which cost us hardly any labor to produce or to replace, are generally not worth the trouble of saving or reusing. In fact, it is usually wasteful for us to do so: it wastes our labor and our time, which are the only things in life we should be concerned about not wasting. For if we can produce new tin cans easily, by scooping iron ore out of the earth in ten or twenty-ton loads, it is simply ludicrous to take the trouble to gather up each little tin can and carry it off to some recycling center, because in doing so we spend far more labor than we save.

Nor is it "wasteful" or uneconomic in any way that we use so many tin cans or so many paper wrappings. If we consider how little labor it costs us—in terms of the time it takes us to earn the money we spend for it—to have things brought to us clean and fresh and new, in new containers and new packaging, and what the alternatives are for the spending of that money or the use of that time, it becomes clear that the expenditure is well made. For consider the alternatives: We could have our food and other goods wrapped in old newspapers and put in jars, bags, or boxes that we would have to carry along with us whenever we went shopping, or which we would have to make a special trip to go and fetch whenever we came on something unexpectedly that we wanted to buy.

We could then use the money we saved in that way to buy a handful of other goods. Conceivably, we could use the money we saved to work a few minutes less at our jobs each day, and earn correspondingly

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less. But these alternatives would simply be bizarre, because neither a handful of extra goods nor working a few minutes less at our jobs each day would compensate us for the loss of cleanliness, convenience, aesthetic satisfaction and also time saved in shopping that is provided by modern packaging.

Let the ecologists adopt the poverty-stricken life-style of Eastern Europe if they choose. Let them go about like old Russian grandmothers in Moscow, with an ever-present shopping bag and herring jar, if that is what they like. Let them pick through garbage pails while pretending that they live in a spaceship—"spaceship Earth" they call it—rather than in the richest country of the planet earth. But there is absolutely no sane reason why anyone should or needs to live this way, and certainly not in modern America. Above all, let them keep their peculiar values to themselves and not seek to impose them on the rest of us by the enactment of laws.

—FOOTNOTES—

[1]I limit the discussion to the resources available on earth. Actually, advances in space technology are making it clear that this restriction is far too narrow.

[2]The quotation appears in W. T. Jones, *The Medieval Mind*, Volume II of *A History of Western Philosophy*, Second Edition (New York: Harcourt, Brace, and World, 1969), p. 6.

"Every commentator on current affairs who is not a fully trained economist ought to read this book if he wants to talk sense. I know no other place where the crucial issues are explained as clearly and convincingly as in this book."

—F.A. Hayek

THE GOVERNMENT AGAINST THE ECONOMY

George Reisman

Introduction by William E. Simon

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Donald J. Senese

Government, Heal Thyself

A belief is growing among supporters of free market economics: "There is nothing wrong with the American system of medical care that more governmental intervention could not make worse." As we examine governmental intervention in the health care field, we discover it has inflated health care costs to the patient and has failed to deliver a better medical product. If the advocates of more governmental control have their way, a program such as hospital cost containment or a program of nationalized health insurance (socialized medicine) will skyrocket health care costs, increase bureaucratic regulations, turn medical care into a "public utility" to be dispensed by government, and reduce the quality of health care.

The U.S. government uses the dollars of taxpayers to provide health care to the elderly (Medicare), to aid states via grants to provide aid for the poor (Medicaid), and to subsidize hospital construction (e.g., Hill-Burton). The federal government also operates hospitals to provide care to veterans, merchant seamen, military personnel, and American Indians.[1]

Advocates of government regulation in the health care field maintain that health care is a "unique good" and that the principles of the free market, especially the law of supply and demand, do not apply to it. Since it is "unique," only those wise and all-knowing government bureaucrats are qualified to plan and allocate health resources. These officials demean the free market and

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promise, through more governmental intervention, better health care services at lower costs. The performance, however, never meets the promises. As governmental regulations increase, a poor medical product is delivered at greater and greater costs to the patient, either directly through higher premiums or indirectly through higher taxes.

The health care field is not immune to the laws of the market place. Experience has shown that more governmental intervention leads only to chaos and confusion.

Cost Containment

The major effort of the current national administration to deal with rising health care costs was by placing government-mandated price restraints on the nation's hospitals. While outwardly rejecting controls for other sectors of the economy, the federal government imposes on one industry its "inflation control" program. Citing hospital costs as rising faster than the Consumer Price Index, these advocates of expanded centralized control would set an amount for cost increases before mandatory federal controls would go into effect.

The proposed solution, by ignoring certain economic facts in the health field, would create more problems than it would solve.

It is a fallacy to compare the hospital cost increases with the rate of increase of the Consumer Price Index. The comparison ignores two important factors in the health care field: (1) the provision of services to a growing population, and (2) the growth in "service intensive" costs including capital investment in diagnostic and remedial equipment. The great advances in medical services in the United States such as kidney transplants, cardiac surgery, and coronary care and burn treatment units have come about because the incentive has been available to develop and produce new medical technology. Better and more effective treatment increases the cost of specialized care; such a climate of freedom to develop new medicines and better machines for health care prevents stagnation in the health care field and brings about greater advances for mankind.

The United States devotes about nine percent of its Gross National Product to health care, a percentage similar to that of other countries like Germany, Sweden, and the Netherlands.[2] Despite the claims of some politicians that the poor in the United States do not receive adequate health care, Dr. Harry Schwartz of the research department of the Department of Surgery at the Columbia University College of Physicians and Surgeons has documented that the poor in the U.S. get on the average at least as much medical care from physicians

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in hospitals as do those in higher income groups.[3]

Regulatory Measures

Restrictions on costs in patient care and on development of new health care equipment can lead to a rationing of health care. This rationing will place the best interest of a free people secondary to the cost policies of government bureaucrats.

Even in the hospitals where waste and inefficiencies exist, government-mandated controls will only have a limited effect because relative cost cuts will look impressive on the surface. It will be the efficient and cost-conscious hospitals which will be forced to cut costs to meet governmental guidelines—and the area for the quickest cost cutting will be in the area of serving patients.

A large measure of the health cost increases comes not from deficiencies in the free market but as a direct result of governmental controls. Personnel costs occupy a significant part of a hospital's budget, and government-mandated increases in the minimum wage have significantly increased costs in the hospital industry. Increasing governmental regulations through Medicare and Medicaid have placed additional costs on hospitals through an abundance of new regulations. A two-year study by the Hospital Association of New York state revealed that government regulation was a major factor in increasing health costs. This study, focusing on hospitals in the state of New York, estimated that twenty-five percent of hospital costs were attributable to meeting government regulatory requirements at an annual cost of one hundred fifteen million man hours or over one billion dollars per year! The report noted that each of four hospital departments (administration, personnel, social services, and utilization review) devote over fifty percent of their costs to complying with government-ordered regulations.[4]

Additional Government Controls

A careful examination of the health care industry shows a myriad of government controls which hamper the operation of the free market in medical care—and drive up costs for the consumers.

The federal government adopted the certificate-of-need program as a control mechanism to prevent hospitals from putting resources into "excessive investment" in health care facilities. The passage of Public Law 93-641 in 1974 required states to establish certificate-of-need programs in order to qualify for federal subsidies for health planning and other federal grant programs. What has been the result of this government cost control program? The program did not reduce the total dollars for hospital investment but merely

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changed the direction from investing in hospital beds to investments in more sophisticated medical equipment. In addition, the certificate-of-need program failed to reduce substantially the rise in hospital costs per capita and to bring about any significant savings in health care costs.[5]

Government intervention in the medical market place brings decisions by government bureaucrats rather than medical experts. These government bureaucrats have added non-health criteria before even granting the certificates-of-need. In the District of Columbia, a private nonprofit hospital received approval for a renovation and modernization project only on the condition it would change the sexual and racial composition of its governing body. In New Jersey, an attempt was made to coerce a certificate-of-need applicant to allow an outside organization to select members of its governing body. In Colorado, a hospital was told its certificate-of-need would be granted only if the applicant reduced its number of obstetric and pediatric beds.[6] All of these examples, as well as others, show that the certificate-of-need program has been used by government bureaucrats to do certain things which are unrelated to the original purposes of the program. These bureaucrats practice political medicine by imposing arbitrary and unfair requirements on those hospitals which seek renovation, modernization, or additional facilities.

Professional Standards Review

Another government-promoted cost containment proposal led to the adoption of the Professional Standards Review Organization (PSRO) as part of Public Law 92-603 in 1972. The promoters of this reform sought to reduce unnecessary medical procedures while minimizing the length of stay in hospitals; they sought to encourage the use of outpatient and extended care facilities. The omnipotent government regulators aimed to accomplish this objective through a detailed review procedure in implementing the PSRO. However, studies by the Institute of Medicine and medical procedure experts concluded that PSROs had not appreciably reduced costs or brought about a significant improvement in the quality of care. In fact, the limited amount of savings appeared insufficient to cover the cost of the review process.[7] Even government promoted tax incentives to employers to encourage individuals to buy health insurance policies have had the effect of promoting the buying of packages of health insurance without any careful analysis of needs or costs since the program is government subsidized.

During the very time a major ef-

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fort was underway to promote the adoption of a hospital cost containment program, another branch of the Health, Education and Welfare complex issued preliminary regulations for a new government regulatory measure—the SHUR (System for Hospital Uniform Reporting) program. This totally new government-mandated method of keeping hospital records would have greatly increased administrative costs for all hospitals.

The other attempts to interfere with the free market in health care to contain costs have all been failures resulting in more regulations, additional costs, and a threat to the quality of medical care. It is assured that any hospital cost containment program will bring the same failure. One Congressman, Representative David E. Satterfield III of Virginia, predicted the failure of such a measure to his colleagues during debate on the bill on the floor of the U.S. House of Representatives:

> It is not a bill which would contain hospital costs. It is a hospital revenue control bill, and the real growth in hospital revenues is not due to inflation. The only savings [this bill] could achieve would be through reduction in the amount and quality of hospital care made available to the American people.[8]

The Intervention Record

Those advocates of increased government power over the health field prefer to ignore the lack of accomplishment and the new problems such intervention brings.

Voluntary efforts by the hospital industry succeeded in limiting the increases in health costs—a decrease from 15.6 per cent in 1977 to 13 per cent in 1978 and 13.4 per cent in 1979. Yet, the hospitals operated by the federal government experienced in 1977 a cost increase of between 19 and 22 per cent.

The federal government has a poor record in estimating and controlling costs even in programs it directly controls. The Department of Health, Education and Welfare estimated that the cost for Medicare hospitalization for the first year would be less than one billion dollars. The actual cost was three billion four hundred million dollars—more than three times the original estimated cost. The tenth year cost estimate was $1.7 billion but actually was $12.6 billion, or seven times the original estimate. The cost for Medicaid in 1977 was $17.1 billion or more than sixteen times the original estimate.[9] Viewing the Fiscal Year 1981 budget, the estimated outlays for Medicare are $37.3 billion and $15.9 billion for Medicaid.[10]

The evidence of experience with centralized medical systems such as those of Canada and Great Britain should be a lesson for Americans. While eliminating the price

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barrier by a government controlled system, the government has caused the following long-term results: a net reduction of resources channeled to health care, an increase in the maldistribution of doctors, no new doctors produced, and no new hospitals built or even financed.[11] The lessons are clear that further intervention will increase, not decrease, health care problems. J. Enoch Powell, who served the British government as Minister of Health for three years, has pointed out that under a government-controlled medical system where demand is unlimited and where medical care is "free," there has to be a method to squeeze demand to equal supply:

> In brutal simplicity, it has to be rationed; and to understand the methods of rationing is also essential for understanding Medicine and Politics. The task is not made easier by the political convention that the existence of any rationing at all must be strenuously denied. The public are encouraged to believe that rationing in medical care is immoral and repugnant. Consequently when they, and the medical profession too, come face to face in practice with the various forms of rationing to which the National Health Service must resort, the usual result is bewilderment, frustration and irritation.[12]

He noted that the people desiring medical care are put on the waiting list. If they are on long enough, they will die, usually from some cause other than that for which they joined the line. Or, they "frequently get bored or better, and vanish."[13]

Conclusion

Government attempts to intervene further in the health field will erode the quality of medical care and will substitute bureaucratic decisions which should be made by health experts in the market place. Cost containment will result in "price control," leading to a rationing of health care. Considering the past record of governmental intervention in the health (and other) fields, the results will be negative and individual choice will be narrowed as the power of government is expanded in the decision-making process. Controls will not curb inflation or bring beneficial results to the U.S. economy; the prospect of failure is the same even if they are only applied to the hospital industry.

Emphasis needs to be placed on expanding the opportunity for competition in the health care field, not expanding government controls. The free market solution is to increase competition through such initiatives as certification of health providers rather than occupational licensure, repeal of fair practice laws, more advertising of services, and greater use (and direct reimbursement) of health professionals (e.g., nurse practitioners) and emphasis on preventive care and the

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individual's responsibility to maintain his or her own health.[14] When government administrators come forth with a complex set of interventionist measures to "solve" the government-created health care crisis, advocates of freedom need to resist and give these government planners the admonition: "Government, heal thyself."

—FOOTNOTES—

[1]H. E. Frech III and Paul B. Ginsburg, *Public Insurance in Private Medical Markets: Some Problems of National Health Insurance,* Washington, D.C.: American Enterprise Institute for Public Policy Research, 1975, p. 1.

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[7]"A Policy Analysis of Hospital Cost Containment Programs," Center for Health Services and Policy Research, Northwestern University, Evanston, Illinois, 1978, p. 7.

[8]Representative David E. Satterfield III, *Congressional Record,* November 15, 1979, H10821.

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[11]Cotton M. Lindsay and Arthur Seldon, "More Evidence on Britain and Canada," in Cotton M. Lindsay (editor), *New Directions in Public Health: A Prescription for the 1980s,* San Francisco, California: Institute for Contemporary Studies, 1980, Third Edition, p. 76.

[12]J. Enoch Powell, *Medicine and Politics: 1975 and After,* London, England: Pitman Medical Publishing Ltd., 1976, pp. 37-38.

[13]*Ibid.,* p. 39.

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Arguments Against Socialized Medicine

IDEAS ON LIBERTY

It is a mistake for the government to consider the problems of the sick apart from those of society as a whole. . . . The broader problem is, in a moral sense, one of promoting respect for the individual and the furtherance of initiative and self-providence; in an economic sense, one of increasing production for the benefit of *all* citizens; and in a political sense, one of removing government as a battlefield for special favor and substituting cohesion and solidarity for division and disintegration.

DARRYL W. JOHNSON, JR.

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Edmund A. Opitz

The Philosophy of Ludwig von Mises

AN invitation to speak at Grove City College is a great honor, doubly so, in that I've been asked to talk about Ludwig von Mises. But I am humbled when I contrast the size of the debt I owe to Mises with the meager gesture that is all I am able to offer as a token payment.

I had read Mises' major works before I met the man. I then had the rare privilege of getting to know one of the finest minds in our time, a man who belongs with the great masters of his discipline, Economics; a scholar who advanced that discipline in several particulars by his own genius. And not only that, Mises was an inspired teacher; from the days of his celebrated Vienna Seminar almost till the end of his life, men and women sat at his feet, and some of them have become famous in their own right. The Misesian influence spreads and will continue to manifest itself.

Mises lived his active life during the first two-thirds of this century—a period of world turmoil which affected him personally and tragically, forcing him out of his native land and finally out of Europe, losing most of his precious library and other belongings in the course of his escape. Some refugee scholars came to America in the late thirties and early forties and we rolled out the red carpet for them. But not for Mises. Mises had set his entire life resolutely against the ideological absurdities of the twentieth century which produced the

The Reverend Mr. Opitz is a member of the staff of The Foundation for Economic Education.

This article appears here, by permission, from a lecture of February 26, 1980 at Grove City College as part of a series in tribute to Ludwig von Mises and his work.

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totalitarian upheavals in Europe, as well as the milder but related political and social events in America.

Those European intellectuals who had opposed European fascism and communism in the name of socialism were welcomed here by their domestic counterparts—American socialists, liberals and New Dealers. Lectureships, academic appointments and other honors were made available to them. With Mises it was different. His teachings were a threat to every variety of statism, whatever the label: communism, fascism, Naziism, state interventionism, national planning.

Communist and fascist gangs fought pitched battles in the streets of European cities, but these brawlers were really brothers under the skin; both were statists and collectivists. They fought each other for power; they hankered for the authority to put a nation under red shirts versus brown shirts versus black shirts. But they had a common enemy, and they knew it. The common enemy of all the totalitarians was the old-fashioned Whig philosophy, which, in the second quarter of the nineteenth century began calling itself "liberalism."

Classical Liberalism

Classical liberalism believed in liberty and justice for all; it severely restricted the role of government and politics; it stood for the Rule of Law, private property, and the free market economy. It designed a set of rules which maximized every person's opportunity to pursue his personal goals; it worked for equal freedom by abolishing the legal privileges which had hitherto given some groups in society unfair advantages over others. It got rid of serfdom and slavery.

Mises was a liberal in this old-fashioned sense, at a time when the intellectual currents in Europe and America were nearly all moving in other directions. And so, his arrival in New York went almost without notice. But Mises did have readers in this country, and one of them was Henry Hazlitt, who had reviewed Mises' great book, *Socialism,* shortly after the English translation became available. Mises and Hazlitt had exchanged letters, and Hazlitt tells about receiving a phone call one day in 1940, a short time after Dr. and Mrs. Mises arrived in Manhattan. "The voice at the other end of the line," Hazlitt recalls, "said 'This is Ludwig Mises.' It had the same effect on me," Hazlitt continues, "as if the voice had said 'This is Adam Smith'." Such—in the eyes of a select few—was the stature of the man who arrived in New York on the 2nd of August, 1940.

Cast your mind back about a quarter of a century, to the mid-fifties. Mises had been here for fifteen years, he had gained a number of

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friends and his influence was spreading. Yale University had published his monumental *Human Action* and reprinted his *Theory of Money and Credit* and *Socialism*. These are among the great books of our time, although their time is yet to come.

The news began to filter down into the universities that here was a man of massive intellect and broad cultivation who had devoted a lifetime of rigorous thought to expounding and defending the free market economy —call it capitalism—together with its correlate, the old-fashioned liberal social philosophy. This was but the echo of a forgotten language on most campuses, where orthodoxy in the social sciences included central planning of the society and governmental regulation of the economy among its basic tenets. It occurred to several faculties that it might be a nice gesture in the direction of academic balance to give Mises an hour on campus to tell the students all about capitalism.

Mises has told us why he refused to accept these invitations. "Some of these teachers," he wrote, "try . . . to demonstrate their own impartiality by occasionally inviting a dissenting outsider to address their students. This is mere eyewash. One hour of sound economics against several years of indoctrination of errors!

"If it were possible to expound the operation of capitalism in one or two short addresses," he continued, "it would be a waste of time to keep the students of economics for several years at the universities. It would be difficult to explain why voluminous textbooks have to be written about this subject. It is these reasons that impel me reluctantly to decline your kind invitation."

I am in perfect accord with the sentiments expressed in this letter of Mises; Mises' philosophy is not to be summarized; not in an hour, not in a semester. I shall not try; but if I succeed in intriguing even one person into reading *Human Action* who otherwise might have neglected it the purpose of this lecture will have been achieved.

Mises as a Man of Thought— A Man of Action

Ludwig von Mises was a man of action; but by action I do not mean "activity." As the world tends to judge activity, men of action are presidents, generals, explorers, mountaineers, race car drivers and the like. Mises' action was thought, and thought is the most intense form of action there is, and the most enduring. If some present day Emerson were to write an essay on *Man: As Thinker,* he could do no better than to hold up Mises as his exemplar. In Mises, thought and action joined, and were as one.

I do not mean to suggest that when Mises was asked to list his occupation he wrote in "Thinker," or

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"Philosopher." I suspect he wrote "Economist." In popular understanding, an economist is someone who concerns himself with the workings of business, industry, and trade or one who forecasts the ups and downs of the stock market. Now, these are indeed important human concerns; and Mises did write several big books about production and distribution, capital and interest, money and credit, work and wages, the business cycle, and the several other topics dealt with in academic courses in economics. But Mises' thought and his writings ranged over the whole spectrum of knowledge, from epistemology to history; he wrote about human action over time—from the inner motivations which give rise to action to the remote consequences of a person's decision to act one way rather than another.

I used to walk past a store window in a town where I lived, in which was displayed a drawing of the old pirate symbol, a skull and crossbones. As you walked past this drawing of a death's-head it changed, all of a sudden, as if by magic, into the portrait of a lovely woman. Change perspective and things have an entirely different focus. Misesian economics represents a new focus; the subject matter changes from a mere bread-and-butter affair into an affair of the mind and spirit; economics deals with valuing, purposeful, goal-seeking man.

"Production is not something physical, natural and external," writes Mises, "it is a spiritual and intellectual phenomenon. Its essential requisites are not human labor and external natural forces and things, but the decision of the mind to use these factors for the attainment of ends. . . . The material changes are the outcome of spiritual changes."

A Disposition Toward Freedom

Nearly everyone in the modern world has a disposition toward freedom, and this disposition is powerfully strengthened by the Christian philosophy. Nevertheless, freedom lives precariously in our time in the few places where it survives at all. Freedom may be lost because people do not care enough for it, but that is not our trouble. We want it, but perversely we try to implement freedom by social policies which inhibit and destroy it. There is an anti-economic mentality; it is a refusal to face up to the way-things-are in this significant portion of the human situation.

The theologian may give lip service to the idea of God's overlordship of the whole of life yet in practice refuse to admit the existence of an economic realm in which prevails a regularity of phenomena to which he must adjust his action. Man may

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try to deny his creaturehood in this area, and think to annul economic laws by statute. But if there are regularities here, man must reckon with them; or they will have their reckoning with him.

It is a fact of the human situation as such—regardless of the nature of the social order—that mankind does not find, ready-made in its natural environment, the wherewithal to feed, house, and clothe itself. There are raw materials only, and most of these are not capable of satisfying human needs until someone works over these natural resources and transforms them into consumable goods. Man learns to cooperate with nature and make use of natural forces to serve his ends. He has to work in order to survive. Work is built into the human situation; the things by which we live do not come into existence unless someone grows them, harvests them, manufactures them, builds them, transports them.

Learning to Economize

Work is irksome and things are scarce, so people must learn to economize and avoid waste. They invent laborsaving devices; they manufacture tools, they specialize and exchange the fruits of their specialization. They learn to get along with each other, our natural sociability reinforced by the discovery that the division of labor benefits all. Division of labor and voluntary exchange constitute the market place, which is the greatest labor-saving device of all.

"This division of labor, from which so many advantages are derived," wrote Adam Smith, "is not originally the effect of any human wisdom which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual, consequence of a certain propensity in human nature . . . the propensity to truck, barter, and exchange one thing for another. . . . It is common to all men, and to be found in no other race of animals."

The longest journey must begin with a single step, and it is a very long journey that leads from those primitive beginnings to the complex economic order of our time. But at every step along the way there is that human need to cope with scarcity, to satisfy creaturely needs, to provide for material well-being. And it is just as true now as it ever was that human labor is required before goods appear, and that prosperity depends upon productivity.

Signs of the Market

The visible signs of our economic activities are all about us; factories, stores, offices, farms, mines, transportation systems, power plants, and so on. These are the locations where work is performed, things transformed, services rendered, goods

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exchanged, wages earned, money spent. This is the economy, and the hallmark of the free society is that the economy is not under governmental control; politicians do not regulate the economy, consumers regulate the economy by their buying habits. The billions of consumer decisions made daily in the market place to buy or not to buy determine what goods will be produced, in what quantities, sizes and colors. Consumers, by their market-place decisions, determine who shall stay in business, and how large and prosperous a business shall be. The changing needs, desires, and tastes of consumers regulate wages and salaries. If an entrepreneur makes a profit it is a sign that consumers approve of the services he renders them. In the market place the consumer is sovereign.

The free society has an indispensable role for government. The law, in a society of free people, protects the life, liberty, and property of all persons alike, ensuring peaceful conditions within the community. Government performs as an impartial umpire, by interpreting and enforcing the previously agreed upon rules. A free society endeavors to secure and preserve freedom of personal action within the rules, and the rules are designed to maximize liberty and opportunity for everyone.

Government, in the interest of maximum freedom, uses lawful force against criminals in order that peaceful citizens may go about their business. The use of lawful force against criminals for the protection of the innocent is the earmark of a properly limited government, and it stands in utter contrast to the state's use of tyrannical force on peaceful citizens—whatever the excuse for such action. It's the contrast between defensive force and aggressive violence; it's the rule of law versus oppression.

Laissez-faire Capitalism

In a society where people are free the economic order is referred to as capitalistic. Some prefer to call it the market economy, or the private property order. Laissez-faire capitalism—when the term is shorn of the pejorative connotations that opponents have injected into it—laissez-faire capitalism is the ideal of individual liberty and voluntary association applied to the workaday economic world. It is the economic counterpart of a social order where individual persons have maximum latitude to pursue their personal goals.

Mises believed in the unhampered market economy, and with enormous erudition in several large volumes he expounded the operations of this intricate system. Starting with the self-evident truth that people would rather be more prosperous

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than less prosperous, other things being equal, Mises demonstrated with devastating logic that every political interference with the market hurts some people and makes the entire society poorer. The way to make the nation richer and benefit everyone is to turn the market loose; remove every obstruction that interferes with people's freedom in the market place and the nation's wealth will be maximized. There is no way to upgrade the general welfare except by increasing productivity, and a free people is more productive than a politically regulated people.

Political Intervention

Government is not an economic institution; government is a political institution, and there's no way that you can employ a political means to accomplish an economic end. All political interventions can do is transfer wealth from one set of people to another set; political action does not produce the wealth it redistributes. Furthermore, government is society's power structure, and when the government uses a power play to garnishee wealth from producers it will redistribute that wealth to those who possess enough political clout to go to Washington and lobby for subsidies. And this will not be the poor.

The welfare state operates, ostensibly, for the benefit of "the poor," but "the poor" are in reality its principal victims. Every economic program launched by government defeats the purposes for which the program is proposed. For example, government embarks on a vast public housing project, and Mises demonstrates that the end result will be a misallocation of resources and fewer housing units than would be available were housing left to the market.

The welfare state is a misnomer; a more apt label for what we have is the provider state. The theory back of the provider state is that government will supply the material wants of the people by way of food stamps, public housing, free schooling, medical care, direct relief, or whatever.

Now, the government has nothing of its own to give away so what it gives to Peter it must have first taken from Paul. The government takes from producers a portion of everything they manufacture or grow, and it takes a portion of everything people earn by rendering services of one kind or another. The government redistributes a portion of the wealth siphoned into its coffers by taxation, and thus another accurate label for the kind of government we now have is the redistributive state. The market place allocates rewards peacefully, and then government forcibly reshuffles the original apportionments.

It goes without saying that the

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market place does not always proportion reward to merit. But the state is not a meritocracy either! The populace, when free, rewards its heroes, and they may not be yours. On the other hand, the market place never punishes merit; the rack, the wheel, and the stake are exclusively instruments of the state. If the state is allowed autocratic power in the market place it will curb freedom everywhere else.

If the mood of the citizens is to demand or accept government handouts a new breed of politicians will emerge, soliciting votes on the promise of more government largess to satisfy the demands of the various pressure groups and lobbies. The siren song is: Vote yourself a raise in pay, or vote yourself better housing, cheaper food, free medical care, and the like.

What Government Gives, It Must First Take Away

Now we know that this world of ours is not run along the lines of something-for-nothing; there is always a *quid pro quo*. If government gives you something-for-nothing or something-for-less, it is obvious that this same government is forcing some of your fellow citizens to take nothing-for-something, or less-for-something. Your gain is another's loss; you are living at the expense of someone else. Other people are being victimized for an assumed benefit you enjoy. This is unfair; it is immoral.

The ethical code is violated whenever you pick another person's pocket or steal his purse, and the violation is compounded when you do it legally, that is, when you allow government to do your thieving for you. But only a people with larceny in their souls will write a form of theft into their statutes. Some cynic has suggested that robbery is the first laborsaving device. He's at least half right. And if people do covet their neighbor's property they will surely find legal ways to get their hands on it, and conscience will bend around to approve.

An exclusive preoccupation with economizing may lead some people to neglect ethical and other considerations in their single-minded drive to have their own way, to succeed, to get more for less—more reward for less effort; maximum gain, regardless; something for nothing, whenever possible. So economic science, from the very beginning, has been joined symbiotically to a philosophy of society called Whiggism or Whiggery in the eighteenth century, later to adopt a more fitting label, liberalism. The term, Whig, derives from Whiggamore, a label contemptuously applied to some of the seventeenth-century English Dissenters and Nonconformists who led the opposition to the court party. Adam Smith was a Whig, so was

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Edmund Burke, and so were most of the men we speak of as Founding Fathers. The Whig Party of England became the Liberal Party in 1829.

The Wealth of Nations

Adam Smith, writing in 1776, described the prevailing "mercantile system, in its nature and essence a system of restraint and regulation." In contrast to this "system of restraint and regulation" Adam Smith offered "the liberal plan of equality, liberty and justice." These words of Adam Smith shed a good deal of light on our efforts to understand what men like Mises mean by "laissez-faire capitalism."

Laissez faire has never meant a free-for-all; capitalism has never implied the absence of rules. Adam Smith does speak of "allowing every man to pursue his own interest in his own way," and if those words are lifted out of context they do suggest a desperate no-holds-barred, rough and tumble struggle for money and power. But when we know that these two lines I have quoted from Smith follow one another in the same sentence his meaning is unmistakable. He is advocating a society based on equality, liberty and justice.

Once you have a society whose rules are designed to offer equal justice for all persons, then everyone is free to pursue his personal goals. This is the free society of classical liberalism, and the free economy—or capitalism—is the only way a free people can conduct their economic affairs.

Spiritual Foundation

Classical liberalism presupposes a religious philosophy which regards man as a created being who bears a unique relation to God, being formed in His image—meaning that man possesses free will and the ability to initiate and command his own actions. This free being is under the moral law laid down in the original constitution of things, responsible for discovering this law and obeying it. He is given dominion over the earth. He is commanded to work in order that he might eat; he is the steward of the earth's scarce resources and held accountable for their economic use.

Classical liberalism, in other words, is the secular projection of Christian philosophy. The American Dream, as Jacques Maritain put it, kept "alive, in human history, a fraternal recognition of the dignity of man—in other words, the terrestrial hope of man (expressed) in the Gospel." The thing called "liberalism" today, bears no resemblance whatsoever to classical liberalism; it has nothing in common with the Whiggism of Adam Smith or the liberalism of Ludwig von Mises.

Mises wrote a book entitled *Liberalism*, describing liberalism as

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"a doctrine directed entirely towards the conduct of men in this world . . . it has nothing else in view than the advancement of their outward, material welfare and does not concern itself directly with their inner, spiritual and metaphysical needs."

A Deeper Meaning

Now, some critics of classical liberalism have judged it to be crass, too neglectful of man's higher nature. Not so, says Mises: "The critics who speak in this vein show only that they have a very imperfect and materialistic conception of these higher and nobler needs. Social policy with the means that are at its disposal, can make men rich or poor, but it can never succeed in making them happy or in satisfying their inmost yearnings. . . . All that social policy can do is . . . further a system that feeds the hungry, clothes the naked, and houses the homeless. Happiness and contentment do not depend on food, clothing and shelter, but, above all, on what a man cherishes within himself. It is not from disdain of spiritual goods that liberalism concerns itself exclusively with man's material well-being, but from a conviction that what is highest and deepest in man cannot be touched by any outward regulation."

Mises further describes some of the central principles of classical liberalism as individual liberty, equal treatment under the law, and the elimination of class privileges; private property, the free market, free trade, and the peaceful cooperation of all mankind. Most Americans still respond positively to these ideals because they are part of our heritage inscribed in our basic documents, celebrated on patriotic holidays.

Man has an innate urge to live better, including the drive to improve his material circumstances and enjoy more prosperity. To this end he has always engaged in some degree of specialization, and he's traded and bartered things he wants less for whatever it is he wants more. These voluntary exchanges are market transactions.

The Cultural Framework

The market has always existed; voluntary exchanges occur among primitive peoples, and there is a brisk under-the-counter market in communist nations like Russia and China. But mere wishes do not transform the market into the market economy. The market economy emerges only when the cultural conditions prepare the ground for it, as was the situation in certain western nations in the eighteenth century.

When a nation's cultural framework includes such spiritual ingredients as the rule of law, equal liberty, security for property, a high

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level of morality, and that respect for rationality which makes science and technology possible, then the impulses and incentives which everywhere produce the market will give rise to capitalism, or the market economy—which is the market institutionalized.

"The reformers of the oriental peoples want to secure for their fellow citizens the material well-being that the Western nations enjoy," writes Mises, ". . . they think that all that is needed . . . is the introduction of European and Western technology." What they really need, Mises continues, is "the social order which in addition to other achievements has generated this technological knowledge. . . . The East is foreign to the Western spirit that has created capitalism."

How can a society whose worldview includes such doctrines as Maya, karma and caste produce the social structure upon which the market economy is based? Accept the idea of Maya and you exclude the idea of a rationally structured, cause and effect universe. The doctrine of karma makes it virtually impossible for individuals to have the necessary self-responsibility and will to succeed which are essentials for a going-concern economy. And caste divisions in a society are incompatible with the idea of inherent rights and equality before the law. Capitalism is rooted in the cultural heritage of the West, Christendom, and you can't have the fruits without the roots; you cannot merely *wish* an end result—to will the end is to will the means.

A Creative Intelligence

The pivot on which Western culture has turned is the conviction that a Creative Intelligence is working out its purposes through nature, history and persons; and that every individual enjoys a unique relationship with this Power. Because he is a created being, there is a sacred essence in man, which, in the fullness of time was understood as conferring certain rights and immunities in the political sphere.

By the eighteenth century, our philosophical forebears regarded as self-evident the truth that all men are created equal, possessing certain rights endowed by the Creator. Government was to be structured around the sovereign person so as to secure his rights and protect his private domain. Americans organized themselves politically around a spiritual framework which, paradoxically, regarded politics as relatively unimportant. The law was to protect life, liberty and property, so that men and women could better attend to the more important things in life—such as religion, art, education, science, sociability and play.

The philosopher-king idea had

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prevailed in most ages: Find the wisest and best men and then give them power over the nation so as to magnify their capacity to do good. The American notion was just the opposite. Americans had had some experience of the corrupting influence of power, and they were aware of the depravity of human nature—that man is a fallen creature. So the brand new political idea adumbrated on these shores was to limit political power so drastically that even if evil men do seize power they can't do much harm. I'd phrase their insight this way: Never advocate any more power for your best friends than you would want to have wielded by your worst enemies.

The Political and Economic Aspects of Freedom

Two centuries ago things came to a head, in two great social achievements. In the Declaration of Independence and Constitution we had the political philosophy and the legal structures for a society of free people. The economic counterpart of our unique politics was the free economy, which promised a society of prosperous people.

But at this very period, Western civilization was to undergo a process of radical secularization which virtually destroyed the ideas of human nature and destiny which undergirded our freedom and prosperity. The human person underwent a radical devaluation; once regarded as the lord of creation he came to be looked upon as the accidental end product of natural and social forces—"little more than a chance deposit on the surface of the world, carelessly thrown up between two ice ages by the same forces that rust iron and ripen corn."

Gone was the idea of a moral law for man's guidance and fulfillment; gone was the idea of free will: a man's character was not made *by* him, but *for* him. Man was the mere creature of circumstance, deprived of initiative, he could not act, he could only react.

An English critic named Christopher Booker, writing on Samuel Johnson, makes reference to this enormous transformation in the human outlook. "On the eve of the French Revolution and the age of Romanticism, European civilization stood on the verge of one of the most astonishing and fundamental shifts in collective consciousness in history—the keynote of which was to be an almost exact reversal of every truth about human nature and experience which Johnson had fought through to with such remorseless honesty and pain . . . it was proclaimed that human happiness *could* be achieved by political means, that the causes of most human ills did not lie within us, but outside us. If there was one belief which was to characterize western

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civilization with ever increasing force from the time Johnson passed away, it was that most human suffering is caused by external factors. In Marx, in Freud, in almost every philosopher and thinker who has shaped western attitudes over the past two hundred years (with one or two towering exceptions, such as Dostoevsky), we find this same overpowering drive to offload the blame for all our guilt, our pain, onto others, onto society, onto our parents, onto political structures, onto our material circumstances." (*The American Spectator,* October, 1978.)

The Consequences of Error

The religious and philosophical errors of the eighteenth and nineteenth centuries produced the social and personal disasters of the twentieth century—faulty thinking and fallacious ideas have come to violent issue in the wars of our time. We tried, and we erred; but we can learn from our mistakes. Try a new direction, and we may succeed. Indeed, we are succeeding as more and more thoughtful people examine the philosophy of freedom in its several dimensions and deeper levels. And as they search, more and more people are encountering the towering figure of Ludwig von Mises. Here was a man of unwavering integrity, a man who lived the truths he taught.

It is impossible to summarize the philosophy of Ludwig von Mises, but I shall close with what might be construed as a personal testimony by Mises himself, which does sum up the character of the man. It is a paragraph from his little book *Bureaucracy.*

"Mankind would never have reached the present state of civilization without heroism and self-sacrifice on the part of an elite. Every step forward on the way toward an improvement of moral conditions has been an achievement of men who were ready to sacrifice their own well-being, their health, and their lives for the sake of a cause that they considered just and beneficial. They did what they considered their duty without bothering whether they themselves would not be victimized. These people did not work for the sake of reward, they served their cause unto death."

Books by Mises

Of the numerous volumes written by and about this outstanding economist, a dozen or more are stocked for resale by: The Foundation for Economic Education, Inc., Irvington-on-Hudson, N.Y. 10533.

Ask for "A Literature of Freedom" catalogue and order form.

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THE SQUEEZE

JAMES DALE DAVIDSON, the chairman of the National Taxpayers Union, is a forceful man of action, as those who have watched his efforts in behalf of a constitutional convention to balance the budget are well aware. He is also a true man of letters. His *The Squeeze* (Summit Books, 1230 Avenue of the Americas, New York, N.Y. 10020, 281 pp., $11.95) is both a trenchant and witty analysis of what happens when the money system of a great country goes sour and an item-by-item prescription for dealing with ills that are most uncomfortably close to reaching a point of no return.

We are, says Mr. Davidson, victimized by nine separate squeezes (he lists them as money, taxes, quality, underemployment, health-care, housing, legal, bureaucratic and energy), though it is obvious that all of them derive from the central fallacy that money is something that should be under the control of politicians. Since Mr. Davidson's concern here is not with international politics, he does not mention the biggest squeeze of all, which is the one exerted by the Russian bear hug. That, however, is the unspoken part of his picture; if we don't do something about the nine domestic squeezes, our general debility will be such that the bear hug will get us with only a perfunctory effort on the part of the bear.

Mr. Davidson's theory is that most of our woes derive from a system that allows the government an extreme latitude in monetizing its debt. This results in an ever-accelerating emission of paper which represents no production. What happens is that Say's Law—the law that says production creates its own purchasing power in the form of wages, payments for raw materials, dividends and interest—is sabotaged. The money created by

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political fiat enters the bidding stream, disrupting the closed circuit of J. B. Say's truism.

The original beneficiaries of the government's paper emissions—such as bureaucrats, government contractors—cash in before the general populace is aware that the signals of exchange have been distorted. What Mr. Davidson calls the "information deficit" could be avoided if the federal budget were balanced. With government income equaling government outgo, there would be no need for the federal borrowing that creates "securities" that can be used as the basis for inflationary bank credits.

Balancing the budget, however, would not be enough to rid ourselves of the nine squeezes. Theoretically, the budget would be in balance if the government were to tax the underlying population at 100 percent, giving back to people whatever it chose to leave to individual discretion in spending. There would, of course, be no production under such a dispensation, for the incentives to invest and earn would be nil. It is obvious, then, that the place where the budget is balanced is all-important. Mr. Davidson recognizes this when he gets to talking about the "three species of capital."

Three Forms of Capital

The individual trying to get along in the world has three choices. He can, says Mr. Davidson, throw in his lot with productive capital, which was the way favored by the nineteenth century. But in an inflationary age, with productive capital earning little if anything in excess of the inflationary gap, the temptation is to divert one's wealth into static capital (i.e., gold, silver, diamonds, works of art). Finally, with the growth of the State, there is a third alternative. Financial writer Scott Burns has used the phrase "transcendental capital" to describe the right of those favored by politicians to latch on to money laid out by the government in one form or another. Bureaucrats, of course, are prime beneficiaries of transcendental capital. But the Chrysler Corporation, which is attempting to avoid bankruptcy by applying to Washington, is seeking a transcendental-capital claim to a cash-flow that the market has denied to it.

Inflation means less money for productive capitalists for the simple reason that people can do better for themselves by seeking a store of value in precious metals, fallow land and old masterpieces. Those who lack capital to put into static forms will, of course, be tempted to settle for bureaucratic employment that carries with it all sorts of perquisites. The typical federal employee, says Mr. Davidson, receives almost twice as much vacation pay—$1,140—as the typical employee of

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business—$636. And government sick leave is more than 200 percent more generous than that provided by most private firms.

The illusions that one can permanently better one's self by betting on the market for old masterpieces or latching on to an early-retirement government pension must, at some point, be shattered. For it is productive capital that provides the money needed to keep people housed, fed and clothed. When the productive side of the economy falters, general impoverishment results. So it is important to balance the budget at a point that will leave plenty of money in the hands of producers. We need, in addition to a constitutional amendment to balance the budget, an overall limitation on the percentage of the gross national product that politicians are entitled to seize. When they grab more than thirty percent of the GNP the result is chronic stagflation.

Interventions That Fail

Mr. Davidson's treatment of the nine squeezes is generally brilliant. He warns us that any effort to halt inflationary price rises by compulsory wage and price controls will result in a severe quality depreciation. Enterprisers who are forbidden to pass the cost of qualitative improvement along to the buyer will simply degrade their wares. It is the only way that bankruptcy can be avoided in a controlled economy.

We have a health-care squeeze, says Mr. Davidson, because the monopoly achieved by our doctors precludes experimentation with "paramedics" who are perfectly qualified to do hospital work without spending four years in medical school to get a physician's license. We have a housing squeeze because building codes and zoning regulations deprive people of the right to make their own decisions about how and where to build. We have a bureaucratic squeeze because of the built-in incentives that federal commissions and bureaus have to extend their empires. We have an energy squeeze because it is profitable for government to create crises that can be used to extend the reach of the professional allocator and price fixer.

Accepting the "imperative" to free productive capital, Mr. Davidson urges people to strike out for themselves as their ancestors did when they built sod houses on the prairie. He wants to see a compulsory budget-balancing amendment combined with a provision for proportional taxation. He favors a redeemable currency based on silver and gold. He would abolish capital gains taxes. He would do away with monopoly forms of medical licensing. He does not say that lawyers should be denied the right to enter Congress, but he does think that

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voters should be aware that if they send a lawyer to represent them he will have a vested professional interest in passing more complicated laws.

Finally, Mr. Davidson would limit government service. This would force people to give up their transcendental right to squeeze the productive side of the economy for a lifetime.

All in all, Mr. Davidson has written a great book. It is both analytic and constructive, in a heartening blend that allows for just enough optimism to have a creative effect.

LAW, LEGISLATION AND LIBERTY, Volume 3: The Political Order of a Free People
by F. A. Hayek
(The University of Chicago Press, 5801 S. Ellis Ave., Chicago, Ill. 60637)
244 pages ■ $14.00 cloth

Reviewed by Paul Westman

F. A. HAYEK, 1974 Nobel laureate in economics, is the foremost living exponent of classical liberalism, the philosophy which largely dominated economic and political thinking and policies during the nineteenth century in Great Britain, America, and to a large extent the Continent—until World War I.

The ideal of classical liberalism was individual liberty, promoted through limited government and the free market. Among Hayek's intellectual forebears, as the footnotes to this volume testify, are John Locke, David Hume, Adam Smith and John Stuart Mill.

The aim of the volume under review is to provide "a guide out of the process of degeneration of the existing form of government, and to construct an intellectual emergency equipment which will be available when we have no choice but to replace the tottering structure by some better edifice rather than resort in despair to some sort of dictatorial regime."

He continues, "Government is of necessity the product of intellectual design. If we can give it a shape in which it provides a beneficial framework for the growth of society, without giving to any one power to control this growth in the particular, we may well hope to see the growth of civilization continue."

In 1960 Hayek wrote *The Constitution of Liberty*, a major attempt to restate the principles of classical liberalism for modern readers. *Law, Legislation and Liberty* in three slender volumes, was intended to fill the gaps left by that work, but is actually a comprehensive philosophical statement in its own right.

The first volume in the series, *Rules and Order* (1973), deals with the distinction between legislative law and natural or "grown" law, and

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its implications for freedom. Volume 2, *The Mirage of Social Justice* (1976), attacks the widespread contemporary belief in political redistribution and "social justice" (the latter a myth, Hayek argues).

Hayek argues persuasively that modern society has destroyed the original conception of the legislature, and that as a consequence there has been a miscarriage of the democratic ideal. Ours has become a "bargaining democracy," in which government is little more than the football of special interests.

In tracing precisely how and why this situation arose, Hayek confronts the central flaw of modern democracy: the notion of government as sugar daddy, confiscating income and doling it out to those with the greatest political clout. To halt this destructive process, Hayek urges "the containment of power and the dethronement of politics," together with the rules which permit the formation of a "spontaneous order" in which law is king and government has neither a mandate nor the power to achieve particular—as opposed to general—ends. He logically demonstrates the inconsistency of a centralized, governmentally-controlled society with freedom. The two, he insists, are incompatible.

Hayek's astounding intellectual range encompasses politics, philosophy, economics, anthropology, sociology and the history of ideas. His language is nontechnical, possessing clarity of style and thought. The book has a consistency, brilliance, insight and accessibility rarely found among thinkers of any age, much less our own. Reading Hayek is a bracing experience, something like the intellectual equivalent of drinking from a cold, clear brook.

POWER GRAB: THE CONSERVER CULT AND THE COMING ENERGY CATASTROPHE
by James A. Weber
(Arlington House, 333 Post Road West, Westport, Connecticut 06880) 1979
407 pages ■ $12.95 cloth

Reviewed by Tommy W. Rogers

THE author contends that the energy crisis confronting the United States today is not due to insurmountable scientific or technical problems, nor is it the result of dwindling energy sources. The energy crisis is in large measure attributed to a power grab by an ideological "Conserver Cult," which serves a variety of constituents ranging from utopians envisioning a low-energy, low-technology future to those who would erect a totalitarian police state in the present. Since the United States must either grow in domestic energy use or go down the drain of history for lack of energy

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capabilities, the wrong energy policy would be catastrophic in its result for the American people.

The Conserver Cult is said to be fueled by the aversion of elite, upper class members of society to anything which might adversely affect their positions and comforts, including advancement of people lower than themselves on the socio-economic ladder. Having already attained a high standard of living, most of the conserver cultists see little gain for themselves if others should improve their economic standard. Those who can afford the hot tub under the trees, pastoral sequestration, and installation of solar energy provisions may find it virtuous for others to trim the fat off their hoped-for consumption; but note that the clamor for doing without energy is not heard from blacks, the poor, the elderly, or the retirees—people for whom self-denial is imposed as a steady, grinding, daily way of life.

It is, of course, one thing to select a lifestyle for oneself, quite another thing to impose a lifestyle on someone else who neither chooses nor desires it. What changes would the Conserver Cult impose on America? Mr. Weber quotes a recommendation—typical of its silliness—of a "Low Energy Scenario for the United States: 1975-2050," which envisions the "phase out of fast food services and other 'junk' commerce. The popular fact that McDonald's hamburger chain uses enough energy a year—largely for packaging—to provide electricity for the cities of Pittsburgh, Boston, Washington, and San Francisco illustrates the American penchant for throwaway containers." Defending the youngsters who happen to like hamburgers with all the trimmings, Weber asks, "Who would have thought that Ronald McDonald was an enemy of the people?"

Weber comes to factual grips with such issues as the Carter policy on energy, the realities of "hard" energy and "soft" energy, energy and environment, energy and safety, energy and price controls, energy and conservation, the turning off of growth in the production of domestic energy in the United States, and the motivation of the elitist elements who would summarily turn off growth in hard energy production.

Insofar as government has instituted laws, regulations and controls which have retarded energy development, it has hurt the American public by denying them needed and vital energy resources. The author examines the techniques, vision, ideology, and programs of those who would squelch energy production, and provides a convincing argument that "the price of the Conserver Cult utopia is not only the throttling of future energy production but the end of our free society."

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Ideas on

Liberty

A new public opinion must be created privately and unobtrusively. The existing one is maintained by the press, by propaganda, by organization, and by financial influences which are at its disposal. The unnatural way of spreading ideas must be opposed by the natural one, which goes from man to man and relies solely on the truth of the thoughts and the hearer's receptiveness for new truth. . . .

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